

FEDERAL ENERGY REGULATORY COMMISSION

WESTERN ENERGY INFRASTRUCTURE CONFERENCE

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The WestCoast Grand Hotel

Seattle, Washington

November 2, 2001

1 MR. WOOD: Good morning. I'm
2 Pat Wood, Chairman of the Federal Energy
3 Regulatory Commission. And I'd like to call
4 this event to order to consider the matters
5 which we have posted in accordance with the
6 government and the Sunshine Act for this time
7 and place.

8 I'm honored to be here with my
9 colleague, Nora Brownell, from the Commission;
10 and particularly honored to have with us the
11 President of the Western Governors Association,
12 Governor Jane Hull, from the State of Arizona.

13 I'm also pleased to see here
14 this morning our fellow Commissioners from the
15 states across the area that we had a good
16 meeting with over the past two days of the
17 KREPSI Group. I want to thank you for the
18 invitation today, particularly Commissioner Marsha
19 Smith from the State of Idaho, as Chairman of
20 the KREPSI Group that has met over the past two
21 days to talk about regional energy issues.

22 The purpose of FERC's meeting
23 today is the first in a series of regional
24 meetings across the country to talk about the
25 important issue of energy infrastructure. Today

1 we have a variety of panelists who we think
2 represent a lot of different points of interest.
3 It's really not a debate about issues today, but
4 really just an exposition of the facts and some
5 discussion about, perhaps, any actions that we
6 collectively, whether that be on the state side
7 or the federal side or industry side, or
8 altogether, need to take to ensure that the
9 energy infrastructure of the western region of
10 the country is healthy and, for the long term,
11 maintains its health.

12 As the Chair of a commission
13 that has rightly or wrongly been put right in
14 the middle of the western energy crisis over the
15 last year-and-a-half, I have made it my personal
16 vow to insure that what happened, or what has
17 happened in the last year-and-a-half out west
18 with regard to the chaos and the energy markets,
19 does not happen again. And to the extent that
20 the federal government can play a role in
21 helping that, we're here to help. I happen to
22 come from, I think, the political persuasion that
23 the government that's closest to the people
24 probably does the best job.

25 So we recognize how important it

1 is to work with our sister states in this
2 effort. And so I guess with that context, I
3 want to thank all of you for coming. I look
4 forward to the discussions that we have today.
5 And importantly, to building a relationship that
6 I don't know existed that strongly before, to
7 ensure that as we have problems that come up in
8 the nation's energy markets, particularly those
9 in the western part of the country, that we
10 work together to solve them before they turn
11 into big problems that affect customers. Because
12 that's what we're all about, is making sure that
13 the energy markets of the country serve the
14 customers better than they did yesterday.

15 I would like to recognize from
16 our Commission, we have a number of staff folks.
17 I do want to particularly point out the staff
18 folks who represent my other two colleagues on
19 the Commission, Jennifer Shepard, who works for
20 Commissioner Linda Brethet, and Brett Irely, who
21 works for Commissioner Bill Massey. I want to
22 thank them for being here. I want to also
23 recognize Jamie Simbler and Mary Morton from
24 Commissioner Brownell's staff, and Allison
25 Silverstone from my staff.

1 Also, I want to add the rest
2 of our staff who are here. Those are the folks
3 who, from now forward, are going to be working
4 with our colleagues in the states and with the
5 industry out here in the west to make sure that
6 we maintain open and helpful, creative lines of
7 communication back and forth on issues.

8 So I would just like to have
9 you guys stand up. And through the breaks today,
10 if you all would come to get to know our folks.
11 We've got folks from all across the line-up
12 here. Ed Merle in the back there; Mile
13 Coleman; Carol Conner; Mark Robinson; Kevin
14 Kelley; Marsha Gransey; and our emcee for the
15 day, Rick Miles. Brad Craig and Brad Johnson
16 -- I'm trying to push back 40 as long as I
17 can. And I want to thank you guys for being
18 here.

19 At this time I'd like to
20 recognize my colleague, Nora Mead Brownell, for
21 Opening Remarks.

22 MS. BROWNELL: Thank you. I'm
23 not going to take much time, because we're here
24 to learn. But I want to say I was
25 extraordinarily enlightened when I went to the

1 Western Governors Association meeting last summer.

2 And I want to thank the Western Governors and
3 the Western Commissioners for taking the lead in
4 really looking forward in a way that we have
5 not in this country, and for which we are
6 paying an enormous price.

7 This is all about economic
8 development. And Governor Hull certainly
9 understands that, and is anxious to have the
10 dialogue with the Commission so that we're all
11 working from the same page. And I thank her
12 for her leadership; I thank the Western
13 Governors. And we're looking forward, as we
14 create state panels in the regions of the
15 country, to making sure that we are in fact
16 working together in a way that we have not
17 before.

18 So I look forward to it. And
19 thank you all for participating.

20 MR. WOOD: At this time, it's
21 my honor to introduce the Honorable Jane D.
22 Hull, Governor of the State of Arizona.
23 Welcome.

24 GOVERNOR HULL: It's great to
25 be here in Seattle today. And I particularly

1 want to thank Chairman Wood and Commissioner
2 Brownell for holding this meeting in the West,
3 and for their openness. I got to meet Nora at
4 the Western Governors meeting, and we really
5 appreciated the fact that you came all the way
6 to beautiful Idaho. It wasn't a bad place to
7 be either.

8 MS. BROWNELL: It's a pretty
9 good place.

10 GOVERNOR HULL: But we really
11 appreciate it. I appreciated the openness and
12 the ability that we have had to talk to the
13 FERC officials. And that they are here, and
14 understanding the very real differences that we
15 have here in the west. Unlike the eastern
16 interconnection and the Texas interconnection, the
17 western interconnection has unparalleled diversity
18 in generating resources. We have huge
19 hydroelectric generation in the Northwest, major
20 coal generation in the inland west, and gas and
21 nuclear generation in California and Arizona.

22 We have diverse loads with
23 demand in the Northwest, peaking in the winter,
24 and demand in the Southwest, peaking in the
25 summer. And I have to tell you, it was still

1 about 95 last week. So in the Southwest we're
2 still experiencing summer.

3 Unlike the other grids, our grid
4 includes our neighbors to the north, in Canada,
5 and our neighbors to the south, in Mexico.
6 Sufficient transmission to take advantage of our
7 diversity of fuels, particularly our abundant
8 coal, is a major challenge.

9 I appreciate the Commission
10 holding this meeting in the west. We value the
11 Chairman's leadership in this regard. And I
12 appreciate Commissioner Brownell's further efforts
13 to reach out to the states, and particularly the
14 west.

15 You have recently observed,
16 quite correctly, that many of us know little
17 about FERC. We know little about how you
18 operate. And we're limited to the people we
19 know in your organization. We do know that
20 you're now a vital partner in providing for the
21 energy needs of our citizens. And your efforts
22 to inform and communicate are truly, truly
23 welcome.

24 I also want to thank the
25 Commission for approving the Western Electric

1 Coordinating Council. The WECC is an important
2 piece of the institutional infrastructure that's
3 needed to address western electricity issues.

4 This morning I am wearing two
5 hats, usually I have three: Governor of the
6 State of Arizona; Chairman of the Western
7 Governors Association; and I also serve as
8 Chairman of the Board of Board of Governors
9 Conference, which is six Mexican states that
10 border Arizona, Texas, California and New Mexico.

11 All of us are very, very interested in
12 electricity, obviously, for Mexico. It is an
13 opening up of the Mexican markets for us.

14 Today I'll just talk on the two
15 hats. This August, the Western Governors adopted
16 an energy policy roadmap for the west. This
17 roadmap reflects the intensive work on the
18 electric power issues by Western Governors over
19 the past year or two years. The western
20 electricity crisis has illustrated the limitation
21 of unilateral action by signal states in its
22 federal agencies. States must take the lead in
23 shaping the region's electricity future. And we
24 urge the federal government to support us in
25 this issue.

1 It is important for our friends
2 from FERC to understand that they are not
3 dealing with a blank slate in the western
4 interconnection. A solid foundation for ensuring
5 the adequacy and reliability of the western grid
6 is being laid. The electricity crisis in the
7 west should not be used as an excuse to gather
8 powers for the federal government, and
9 effectively disenfranchise those who pay the
10 costs and bear the consequences of grid
11 decisions. We are very sensitive to such
12 efforts, given the wholesale power in the west.

13 Western Governors have taken a
14 leadership role in addressing electric power, and
15 particularly transmission power. We realize that
16 we cannot wait until the RTOs are in place
17 before beginning to address our transmission
18 needs. On May 9th, Western Governors brought
19 together public and private sector leaders from
20 around the western interconnection to address
21 three key questions: (1) What transmission
22 enhancements are needed in the western
23 interconnection? (2) How can that infrastructure
24 be financed? And (3) How can the needed
25 transmission be expeditiously sited and permitted,

1 a job we all know is getting more difficult all
2 the time.

3 The Governor created a working
4 group in charge of developing a conceptual
5 transmission plan for the west. In about 60
6 days, Jack Davis, the CEO, and Marsha Smith,
7 Commissioner of the Idaho PUC, who is here with
8 us today, chaired the working group. And we
9 cannot thank them enough for the hard work that
10 they did do and the quality report that they
11 produced. Your letter inviting us to this
12 meeting noted the valuable contribution that was
13 made by this report. And we appreciate the
14 very kind assessment from FERC.

15 The report identified two key
16 policy issues that I hope will be part of
17 today's discussion. First, how much should
18 consumers pay for transmission to mitigate the
19 exercise of market power? And second, how much
20 should we pay for transmission to foster greater
21 fuel diversity? And how can such a fuel
22 diversity policy be implemented?

23 The study did not have time to
24 evaluate the adequacy of our national gas
25 pipeline infrastructure, a critical issue for the

1 west. I am pleased you're going to be
2 discussing this today.

3 I'm also pleased that Chairman
4 Wood is interested in proving the analytical
5 capabilities of the Commission. The Commission
6 needs to better understand the western
7 electricity system before adopting those policies.
8 Calls for national uniformity cannot be a
9 substitute for understanding the impact of FERC
10 policies on the western interconnection.

11 Regarding transmission financing,
12 we have asked the WGA transmission working group
13 to develop a paper on the pros and cons of the
14 financing options identified in the conceptual
15 transmission plan report. We also note that
16 extensive work on transmission pricing is part of
17 the RTO work in the west. This is an issue
18 that requires the cooperation of the Commission.

19 On the critical issues of
20 transmission siting and permitting, we are
21 dismayed at the approach of some inside the
22 beltway. To those, the one to grant FERC --
23 and we eventually talked with Commissioners about
24 this -- the power of eminent domain for
25 transmission, we've urged you and will continue

1 to, to carefully examine the real hurdles to new
2 transmission, and the track record in the western
3 interconnection.

4 We are presently engaged in an
5 effort to develop the among State Protocol for
6 the expeditious review of interstate transmission
7 proposals. The states met on Wednesday to draft
8 a proposal. We are hopeful that federal
9 agencies, including federal land management
10 agencies and the federal power marketing
11 administration, will join this cooperative issue.

12 In the west, it is often --
13 and it is terrible for me, as a Western
14 Governor, to say this -- but we are a state in
15 Arizona that has 13 percent private land. The
16 rest of our land is federal and Native American.
17 So I will say it. In the west it is federal
18 government, through its land management practices,
19 that present the greatest challenge to the
20 expeditious siting and permitting of new
21 transmissions. In fact, we in the west have a
22 sterling record. No state in the western
23 interconnection has ever denied a permit for an
24 interstate transmission line.

25 Regarding reliability, management

1 and oversight, we are deeply concerned about the
2 give-us-first approach to reliability that is
3 popular. We urge that federal reliability
4 legislation delegate those responsibilities to the
5 west. We also believe that those who pay the
6 bill and bear the consequences of reliable
7 decisions should oversee the process.

8 The world has obviously changed
9 for all of us since September the 11th. We
10 need to carefully examine the security of our
11 energy infrastructure in the west, and
12 incorporate into our infrastructure decisions an
13 analysis of the risks of terrorism. However, we
14 need to be wise in our response. We cannot
15 arbitrarily shut off the flow of information to
16 limit access by terrorists. Information is the
17 life blood of competitive markets and sound
18 government decision making.

19 In my capacity as Governor of
20 Arizona, I am confident in saying that we are
21 doing our best part to contribute to the
22 region's generation, transmission and reliability
23 needs. Recently I had the pleasure of throwing
24 the switch on the Griffith Energy Plant in
25 Kingman. It is the fourth major new plant in

1 Arizona this year, adding another 600 MW to our
2 state energy supply. We added a total of 1,830
3 MW in the first nine months of 2001. This year
4 we've added more capacity than the State of
5 California or any other western state. All of
6 these are clean-burning, environmentally-friendly
7 projects. We're increasing generation, and we're
8 also conserving to meet our remarkable growth
9 needs. I believe that we had a conservation
10 record of about 7 percent this summer.

11 At the same time, we are moving
12 forward with a coordinated transmission plan.
13 Through the combined efforts of our generators,
14 distributors, regulators and policy makers,
15 Arizona has developed a transmission roadmap for
16 our state that will integrate into the plan
17 being formed for the region.

18 We've been making the tough
19 decisions and working through the public
20 processes to ensure that we have the lines we
21 need in Arizona to move the additional thousands
22 of megawatts that we have under construction.

23 Without going into much more
24 detail, I believe that everyone here is aware
25 that the stakeholders in Arizona have been among

1 the first in achieving substantial progress
2 towards a seamless, transparent electricity
3 process. We are not making this progress
4 because it was ordered by someone in Washington,
5 far removed from our situation and our
6 circumstances. We have been making these strides
7 because it is the best way to provide reliable
8 and affordable electricity to our consumers, our
9 citizens. That has been the motivation for the
10 most of our progress in the west. And we
11 welcome the opportunity to continue moving
12 forward in this manner.

13 I am pleased the Commission is
14 holding this meeting, again, in the west. And
15 I urge you to focus on the cooperative action
16 that will help address the central questions that
17 Western Governors posed in May.

18 In this time of national crisis,
19 each of us needs to do what we can do best.
20 The federal government clearly needs to focus on
21 international energy changes that we face. The
22 western states are focusing on the energy needs
23 of a vibrant western economy.

24 Thank you all very much. And
25 again, thank you for coming.

1 MR. WOOD: Thank you, Governor
2 Hull. I think you all can see why we're
3 starting with the west. We'll have a template
4 for regional cooperation and problem-solving that
5 we really like to make sure happens in the rest
6 of the country. And when Nora came back from
7 the Coeur d'Alene meeting in June, July --
8 August -- it was the summer, folks -- it became
9 real clear to us that there was a great
10 template here that, as we look at problems that
11 can't stay within a state's boundaries, but don't
12 necessarily need to jump to federal issues, that
13 the regional solutions, much as the one you all
14 have really made a trademark of out here, really
15 are the proper way to address this problem.

16 So we appreciate being invited
17 here and appreciate being part of the effort
18 today. So again, thank you for the warm
19 welcome.

20 At this time, I'd like to ask
21 in the way of segwaying into the substance of
22 what we're doing here today, ask Mr. Brad
23 Johnson, who is from our Office of Markets,
24 Tariffs and Rates at the Commission, to discuss
25 the current status of the energy infrastructure

1 in the west. And this was a presentation that
2 was made before the Commission last week. So
3 for the benefit of all our audience here today,
4 Brad, why don't you take over.

5 MR. JOHNSON: Thank you very
6 much, Chairman Wood.

7 Ladies and gentlemen, my name is
8 Brad Johnson. And I'm here to share with you
9 information on some key trends with the energy
10 infrastructure in the west. The data we used
11 to compile and assess the gas and electric
12 infrastructure comes from different sources, such
13 as Energy Information Agency, Western Systems
14 Coordinating Council, North American Electric
15 Reliability Council, Resource Data International,
16 Inc., and others.

17 This presentation has four
18 parts: Demand, Supply, Markets and Transmission.
19 The first table that we will see here is a
20 State Population and Consumption Percentage within
21 the United States WSCC Region for Year 2000.
22 To read this graph, taking Washington as the
23 example, it shows that 9.6 percent of the
24 population within the WSCC resides in the State
25 of Washington. Washington also consumes 15.1

1 percent of the electric consumption, and 7.9

2 percent of the gas consumption.

3 What's interesting about this
4 graph is that when you look at the commodity in
5 relationship to the percentage of the population,
6 you can see if it's a little bit low, like in
7 California where it's a little low with the
8 electric consumption, gas has a tendency to be a
9 little bit higher to offset the consumption needs
10 in that state.

11 The next slide is the Western
12 United States Population and Total Consumption
13 Increases or (Decreases) from the year 1990 to
14 the year 2000 for each individual state. Taking
15 Arizona as an example, we see that they had an
16 increase between 1990 and the year 2000 of 40
17 percent; 48.2 percent electric consumption
18 increase, and 84.1 percent.

19 One point of this particular
20 graph is you can see in the southwest that the
21 consumption figures for both electric and gas has
22 increased dramatically. This is due to the
23 explosive growth in -- explosive and economic
24 growth and population.

25 Our next slide shows Gas

1 Consumption in the WSCC by Sector from 1990 to
2 the year 2000. Residential had an increase of
3 approximately 15 percent; commercial had an
4 increase of approximately 4 percent; and
5 industrial had a whopping 119 percent increase.
6 The thing I'd like to point out about that
7 whopping 119 percent increase in the industrial
8 sector is due to the sale and repurchase of the
9 gas generation facilities in 1998 in the State
10 of California. The new owners were reclassified
11 under the industrial sector, and taken out of
12 the electric utilities sector. So you had a
13 shift in data that was a big portion of that
14 dramatic increase.

15 In our next slide, we see the
16 WSCC (U.S.) Monthly Average Peak Total Capacity
17 and Load. From 1990 to the year 2000 are
18 actual figures, and then we have a projected
19 side. For total capacity, you can see they
20 remain relatively flat between the 1990 and the
21 year 2000, growing approximately 3 percent.
22 Whereas, peak increased about 18 percent during
23 the same time. Hydro capacity mimicked total
24 capacity, and that remained relatively flat at
25 just about 4 percent.

1 On the projected side -- and I
2 need to put a caveat on this -- projection
3 numbers become very unreliable after about two
4 years or so. So the farther out that your
5 projection goes when you're dealing with total
6 capacity and peak figures, the more unreliable
7 these figures become. But what we've done or
8 our peak line, is we've created a high load.
9 What we're saying here is that there's a 10
10 percent chance that demand will be below 120,000
11 MW, which is the dark blue line. And the
12 orange line, that we're saying would be 10
13 percent of a chance it being above that line,
14 or 144,000 MW. The 131,000 MW is the actual
15 line that NERC used for their projections.

16 The pink line at the very top
17 shows the main capacity increase between the year
18 2000 to the year 2005. They're saying it's going
19 to be increasing approximately 52,000 MW, or 39
20 percent. We also see this as being a very rosy
21 picture. Next slide, please.

22 Part II, we have Supply. And
23 our first slide is going to be two different
24 graphs. One with Demonstrated Capacity U.S.
25 West, and one with Net Generation in the U.S.

1 West.

2 With Demonstrated Capacity,
3 please note that California and Washington take
4 up over 50 percent of the western capacity
5 available. And from that generation, California,
6 Washington and Arizona create over 50 percent of
7 the net generation for the region.

8 What is also interesting about
9 this graph is that nuclear and coal units are
10 larger in terms of their share of generation
11 output than their share of capacity. This is
12 mostly due to the fact that they are base load
13 units and are always running.

14 Our next graph shows various
15 points that were not included on the previous
16 graph. A couple of points I'd like to point
17 out would be Point No. 2, which is, 20 entities
18 at 10 percent own 73 percent of the total
19 western capacity, and 20 entities produce
20 approximately 71 percent of the generation.

21 The bottom point is from 1996
22 to the year 2000, gas fire generation increased
23 221 percent in the region, while generation other
24 than hydro increased only 20 percent. Hydro
25 decreased 17 percent. And all this occurred

1 while installed capacity changed very, very
2 little.

3 Our next graph shows the
4 Interrelationship of Hydro, Natural Gas, and
5 Coal. With that last statement, of gas
6 increasing 221 percent in the year 2000, you can
7 see the dark blue, where gas went ahead and
8 made up the difference for hydro, which has been
9 slumping during that time period, of 17 percent.
10 Coal also had an increase, about 19, 20 percent.

11 This next graph shows the
12 Current and New Capacity. Currently, the
13 nameplate in the region is 150,000-151,000 MW.
14 Projected new is going to be 32,000. 24,000 of
15 these megawatts as new capacity is either under
16 construction or in the advanced development
17 stage. The remaining 8,000 is only in the
18 early development stage. However, this 8,000 MW
19 is only half of what was actually projected by
20 the companies. We infer, because of the
21 reported figures, for the sake of conservatism.
22 But who knows? With events like the economic
23 downturn, this may not be conservative enough.

24 This next graph gives the bullet
25 points to what the prior graph was.

1 The final graph in this section
2 gives various definitions and assumptions on how
3 these graphs were produced, and definitions of
4 some of the verbiage that was used.

5 Our next area is Gas. This
6 map depicts the western gas infrastructure.
7 There are 20 interstate pipelines that serve the
8 west. And with all the projects for approved
9 filings, or on file, at the Commission, the west
10 appears to have sufficient interstate capacity.

11 In this next slide we see the
12 Storage for the Western Consuming Region. With
13 the light blue line, we see the year 2000-2001.
14 The red line is 2001 and 2002, and the dark
15 blue line is stating the five-year average.

16 A gas year is from April to
17 the following March. And as you can see in May,
18 the year 2002, we passed the five-year average.
19 And the west, around August, went ahead and
20 surpassed last year's average for storage in that
21 consuming region.

22 This next slide is the Western
23 U.S. Natural Gas Supply Resource Basins. What
24 we did with this graph is we extended it a
25 little farther east, so you could get a flavor

1 of where some of these basins are in Texas and
2 in the Midwest and in Canada. The table in the
3 right-hand corner sums up the various natural gas
4 resources that are shown on the map. 83,000
5 Tcf (trillion cubic feet) of proven resources,
6 351,000 Tcf of potential reserves, and 101,000
7 Tcf of reserve growth, for a total of 535,000
8 Tcf of reserves for the regions.

9 According to the U.S. Geological
10 Survey, the country's reserves can be developed
11 and produced economically to serve the nation for
12 the next fifty years.

13 In this next section, we start
14 dealing with markets. The Market Activity
15 section is broken down into two parts: The
16 historical perspective of market prices in the
17 west; and the second part presents the forward
18 market perspective.

19 In our first slide here, the
20 top map depicts locations of major wholesale
21 electric and natural gas trading hubs within the
22 U.S., gas being in pink. The bar graph below
23 gives a snapshot of the electric trading volumes
24 found in the western markets compared to the PJM
25 west. The red represents the trading volume of

1 March 2001, and the blue represents August of
2 2001.

3 Northern western electric markets
4 exhibit lighter trading volumes when compared to
5 PJM. Contributing to these lower volumes were
6 western market participants' encouragement to
7 enter long-term bilateral contracts, relying less
8 on the spot market; and two, the risk of
9 potential price mitigation and associated refunds.

10 Consequently, western trading hubs exhibit less
11 liquidity, and therefore the price in these
12 markets become more susceptible to price
13 volatility.

14 This next graph gives a
15 side-by-side comparison of what occurred between
16 January of 1998 to July 2001 between electric
17 and gas. Prior to the summer of 2000, both
18 graphs illustrate that they were trading
19 according to what trend was, electricity trading
20 at or below \$50/MWh, and that's about 250/mmbtu.

21 Beginning in the summer, we saw
22 electric increased \$100-\$200/MWh, along with
23 electric price -- natural gas prices -- started
24 to increase to the \$5/mmbtu range, twice as high
25 as the previous year. During the winter of

1 2000-2001, the western electric prices reached
2 unprecedented levels. They were trading between
3 the \$200-\$400 MW range for electric. And
4 natural gas reached a whopping \$15/mmbtu in
5 January of 2001. During this period, we
6 witnessed significant price variation between the
7 hubs in the western markets.

8 During the summer of 2001,
9 prices began to return to normal trending, with
10 electricity trading below \$50/MWh and gas below
11 \$5/mmbtu. The decline in prices is mostly
12 attributable to a combination of factors: (1) a
13 milder weather throughout the summer of 2001; (2)
14 plentiful generation and more being built; (3)
15 reduced demand in active conservation programs;
16 (4) lower natural gas prices; and (5)
17 FERC-imposed electrical wholesale price mitigation
18 throughout the entire western market, beginning
19 in the summer of 2001.

20 In the following graph, we have
21 the NYMEX Electric Futures. The upper graph
22 showed 12-month forward prices tracked seasonal
23 patterns, but exhibited greater volatility versus
24 PJM. This graph is set up in March of 2001.

25 The bottom graph is for August

1 of 2001. The top graph shows that March prices
2 and COB of California-Oregon border traded about
3 \$450/MWh for delivery in August of 2001, and
4 \$150 for delivery in March 2002. During this
5 particular time, the future market was predicting
6 that there would be another summer just like the
7 one in the year 2000, that warranted these
8 prices.

9 By August 2001, future prices
10 fell back in line, which is exhibited in the
11 lower graph. Forward price has subsided to
12 reasonable levels significantly lower than the
13 previous months. Forward prices also currently
14 exhibit less volatility and begin to converge
15 with PJM forward prices in March of 2002.

16 In our research at FERC, we
17 noted that the ten-year western forward price
18 curves echo current prices supporting this price
19 stability and significant increases in planned
20 generation capacity for the western market.

21 In our next section, we have
22 Transmission. This map illustrates a 345kV or
23 higher transmission lines within the WSCC. The
24 table provides a breakdown for the 1999 miles of
25 transmission -- or percentage of miles in the

1 WSCC -- and the transmission assets for each of
2 the WSCC subregions. In 1999, asset values are
3 representative of all of the assets considered to
4 be transmission within each of the NERC
5 subregions, which also includes transmission at
6 lower voltages.

7 Although not shown in this map,
8 the majority of miles of transmission in both
9 California-Mexico, or Cal-Mex, or in the pink
10 area on the map, and the Northwest Power Area,
11 or NWPA, the gold area on the map, fall in the
12 150kV, 161 and 230kV voltage categories.

13 The NWPA and Cal-Mex are also
14 the two densest subregions in terms of miles of
15 lines, comprising over 70 percent of the total
16 miles of transmission within the WSCC. Combined
17 1999 transmission assets for NWPA, as well as
18 Cal-Mex near \$19 billion, making up nearly 80
19 percent of the \$24 billion in assets in the
20 WSCC area.

21 The next map shows the WSCC
22 Transmission Projects. This map was originally
23 given by the Western Interconnection Biennial
24 Transmission Plan for the Year 2000. The
25 biennial transmission plan issued on July 7th,

2000 by the Northwest, Southwest and Western
Regional Transmission Associations in cooperation
with the WSCC, identified ten projects, as shown
on this map, for significant interconnection
interests. Seven of those ten projects are
located in the Cal-Mex and NWPA regions. The
sponsors of these projects of significant
regional or subregional impact, had to
demonstrate that their project met all ten of
the coordinated planning process guidelines, two
of which include transmission constraint
mitigation and operational constraints created or
removed by the project.

A third planning guideline
weighs economic considerations concerning the
evaluation of costs and benefits of the project
and reasonable alternatives.

This next table shows WSCC
transmission projects, very similar to the last
slide that we saw. In fact, the table details
the names of the projects that you did see on
the previous slide. The project numbers also
correspond with the numbers on the map. The
projects include installation of new facilities
and/or lines, upgrades, reconductoring of lines.

1 As you can see from the table, almost all of
2 the projects are expected to be completed by the
3 year 2004.

4 Next slide, please. That's it.

5 This concludes our presentation
6 of the western infrastructure assessment. Any
7 questions?

8 MR. WOOD: We have some
9 microphones if anyone in the audience or any of
10 our Commissioners have any questions of Brad, or
11 the document. We'll probably be referring to
12 this document on and off through the day.

13 Yes, sir. Come on up to the
14 mic, sir.

15 AUDIENCE MEMBER: The one
16 question I have is: How much have you factored
17 in for retirements in this generation?

18 MR. JOHNSON: In which area,
19 for our supply area?

20 AUDIENCE MEMBER: For the
21 supply, correct.

22 MR. JOHNSON: Okay. The data
23 that was presented, these projections, were done
24 by RDI. It would be dependent on what their
25 methodology is. One would think that RDI would

1 be considering the surrendering of facilities as
2 time projected forward, as well as the capacity
3 increases

4

5 .

6 AUDIENCE MEMBER: So I guess
7 the answer I heard was, you don't know.

8 MR. JOHNSON: Well, no. This
9 is not our database; this is an RDI database.

10 AUDIENCE MEMBER: Okay. Thank
11 you.

12 MS. SHOWALTER: I'm Marilyn
13 Showalter, Chair of the Washington State
14 Commission. This is just an observation.

15 Any time in the west, when we
16 are looking at transmission supply reserves,
17 whether it's electric or gas, always our maps
18 will show Canada and British Columbia in
19 particular. In the Northwest some 70 percent of
20 our natural gas comes from Canada. It is an
21 integral part of both the gas system and the
22 electric system, integrated in a physical sense,
23 integrated in a contractual sense.

24 So the information that's been
25 presented is not inaccurate, but it is incomplete

1 if you want to get a sense of the west, and
2 particularly the Northwest.

3 AUDIENCE MEMBER: I'm also a
4 Commissioner from the Washington Commission. The
5 material that was presented was machine gun
6 saddle, so I may have misunderstood. But I
7 thought I heard the description that, from the
8 west there's adequate pipeline capacity for gas.
9 And I was a bit surprised at that.

10 All of the new projected
11 electric plan going forward, I think there is a
12 general concern about the gas, the supply, the
13 pipeline supply -- not the potential gas supply,
14 but the ability to move the gas to all these
15 plants we are in the process of now building.
16 And I wonder if there's any comment on that.

17 UNIDENTIFIED SPEAKER: I want to
18 mention the interstate pipelines. I think we
19 were trying to make the point that the capacity
20 that's coming into the west is sufficient based
21 on the current load, coupled with the projects
22 that are before the FERC. So we do acknowledge
23 that for that particular adequacy, you still need
24 to have the projects being approved coming
25 on-line.

1 MR. SMITH: Jerry Smith, Arizona
2 Corporation Commission staff. I'd like to
3 comment on the gas pipeline issue for just a
4 moment.

5 If you would compare your Slide
6 18, which shows the gas pipeline system, with
7 Slide 27, which shows the BHB transmission system
8 in the west, I would suggest to you that there
9 are some post parallels in terms of disparity
10 with those systems in comparison to what you
11 would see in the eastern interconnection. And
12 it is out of that context that we have concerns
13 in the west regarding adequacy and reliability of
14 supply, either of gas -- delivery of gas or
15 delivery of power out at these power plants.

16 But more importantly, from
17 Arizona's perspective, we have in the planning
18 queue, siting queue, 22,000 MWs of generation,
19 which equates to almost 3 billion cubic feet per
20 day of gas requirements. Today we have consumed
21 about 250 million cubic feet per day of gas in
22 Arizona. All of those plans are connecting to
23 existing pipeline which, according to our
24 records, are at capacity today.

25 So I think that underscores our

1 concern about inadequacy of current pipeline to
2 meet the near-term needs of new power plants.

3 Secondly, I would like to
4 respond to your assumption that 50 percent of
5 the power plants in the advanced development
6 stage is only being represented in your model.

7 What we're experiencing in Arizona is a very
8 high success ratio of plants once they reach the
9 permitting process. Once they file for a
10 permit, we're seeing, almost without exception,
11 that they are being constructed and built. The
12 reason for that is we have a time window for
13 the construction of those plants by the permits
14 that are issued.

15 MR. JOHNSON: Excuse me. In
16 response to the last comment that you had, what
17 we were saying is that 24,000 MW of new
18 capacity is either under construction or in the
19 advanced development stage. And the remaining
20 8,000 is only in the early development stage.
21 And that 8,000, with the 50 percent of the
22 original number of 16,000, that was in the early
23 development stage.

24 MR. SMITH: And that's what I'm
25 suggesting, our experience in Arizona is tending

1 to not reflect that because of our unique siting
2 process.

3 MS. LAGERS: Good morning, Anne
4 Lagers, Acres International. I have a question.

5 I noted that you show hydro --
6 I'm on page 10 of your presentation, sir -- you
7 show hydro decreased 17 percent. Up above you
8 only show a decrease of 10 percent. And you
9 attribute that to water.

10 I wonder where you came up with
11 your statistics.

12 MR. JOHNSON: What you're
13 dealing with is the difference between capacity
14 and generation. Generation fell off 10 percent;
15 but the capacity, the ability to create
16 generation, fell off 17 percent.

17 MS. LAGERS: What do you
18 attribute that to?

19 MR. JOHNSON: Well, the
20 availability of the plants. There are economic
21 factors that are in there, as well as
22 environmental factors that are in there. It's
23 not installed capacity that you're looking at.

24 MS. LAGERS: I understand that,
25 sir. I'm wondering if any of this is

1 attributed to re-licensing and ESA.

2 MR. JOHNSON: That we don't
3 know the answer to.

4 MR. WOOD: If there are other
5 thoughts or questions or suggestions on the data
6 presentation, again, this is our first regional
7 meeting, and we want to get a good databook.
8 So we appreciate the help and participation of
9 everybody trying to get a common set of data
10 upon which we could make some good decisions
11 collectively. I do appreciate the presence of
12 our colleagues from British Columbia and I
13 believe from Alberta as well. We want to make
14 sure that that information gets harmonized in
15 with the whole information, so that we can use
16 it as a big data source.

17 We're honored to have today our
18 host state's governor, Governor Gary Locke. And
19 with no further introduction, I'd like to welcome
20 you, Governor, from the great State of Washington
21 to come to our group. Thank you.

22 GOVERNOR LOCKE: Thank you very
23 much, Chairman Wood, and also Commissioner
24 Brownell. I'm pleased to welcome you to our
25 great State of Washington. I also want to say

1 welcome to my fellow governor, Governor Jane Dee
2 Hull, I think you're doing a terrific job as
3 the new Chair of our Western Governors
4 Association. I very much look forward to
5 working with you on energy and other issues in
6 the coming year. And as Governor, I have to
7 say how disappointed we are that the reason that
8 you're in town has nothing to do with the World
9 Series.

10 I regret that my schedule does
11 not allow me to stay for the entire meeting
12 today, but I did want to have this chance to
13 talk to you this morning, because I share your
14 belief that ensuring that our region and our
15 country have affordable and reliable energy is a
16 critical task of policymakers, both at the state
17 and the federal level.

18 You're in Seattle this week to
19 hear about the condition of energy infrastructure
20 in the west. And I'll let others speak about
21 their own regions. But I want to share some
22 thoughts about where we are in the Pacific
23 Northwest, and especially the State of
24 Washington.

25 These past eighteen months have

1 been a period of enormous challenge in the
2 Pacific Northwest. California's failed energy
3 restructuring led to power plant shutdowns. That
4 reduced energy supply and drove prices sky high,
5 not only in California, but throughout the west.
6 If that weren't enough, a near record drought
7 limited the amount of hydro-power that the
8 Pacific Northwest could produce.

9 The impact of all of this on
10 my State of Washington was, and still is,
11 enormous. Utility rates in some areas jumped as
12 high as 75 percent as utilities frantically
13 shopped for power on the dysfunctional spot
14 market. Many businesses curtailed their
15 operations or shut down altogether; thousands of
16 workers were sent home, many permanently.
17 Farmers set out the season because they couldn't
18 afford to irrigate their crops. Ocean fishers
19 wondered if they'd have affordable cold storage
20 for their catch. And day after day, we
21 wondered if we'd have enough power to make it
22 through tomorrow.

23 But we got through this year
24 because we made the necessary sacrifices and
25 endured the necessary hardships because many

1 utilities raised their rates; because industries
2 shut down at enormous cost to our economy, and
3 to individual families; because the state
4 temporarily loosened environmental permitting
5 processes for diesel generators because BPA
6 temporarily scaled back it's salmon recovery
7 efforts, and because our citizens voluntarily
8 curtailed their energy use, unplugging their
9 Christmas tree lights, turning down the heat in
10 the dead of winter.

11 I'm pleased we probably don't
12 have to worry about blackouts this coming winter.
13 We're blessed with moderate weather this fall and
14 this past summer. And just a few weeks ago the
15 Northwest Power Planning Council announced that
16 the chance of blackouts in the Northwest have
17 dropped to less than one percent. That's good
18 news.

19 Chairman Wood and Commissioner
20 Brownell, I want to publicly commend you for
21 your leadership at FERC this year. Because
22 within weeks of your joining the Commission, you
23 took swift and decisive action in issuing a
24 must-run order that put thousands of megawatts of
25 California generating capacity back on the grid.

1 You approved a price mitigation
2 plan to ensure that our utilities and our rate
3 pairs would not continue to be victims of
4 obscene prices that we all faced last winter.

5 Your pragmatic approach helped
6 stabilize a volatile market. And that was a
7 breath of fresh air after months of inaction
8 that caused significant damage to our region's
9 economy.

10 I bring up the hardships we in
11 Washington faced this past year because I want
12 to stress a single point: Today you'll be asking
13 how federal policy can help promote
14 infrastructure investment. Some will respond by
15 calling for new government structures, new market
16 structures, and newly-defined roles for FERC and
17 the states.

18 Well, I want to urge a word of
19 caution: To those who call for restructuring of
20 energy markets as a way to promote infrastructure
21 development, to those who would mandate the rapid
22 establishment of new organizations to oversee
23 transmission infrastructure, to those who would
24 alter or diminish the roles of state governments
25 in the regulation of retail energy markets,

1 remember, that the steps you take will affect
2 the lives of real people, real families, and
3 real communities.

4 Energy policy making is not an
5 exercise in abstract economic theory. It's not
6 a simple exercise in balancing constituent
7 interests. It's not merely a new organizational
8 chart to shake up the bureaucracy. As we've
9 seen only too well this year, restructuring
10 energy markets is a grand experiment that can go
11 terribly wrong. If it must go forward at all
12 -- and to me that's a big if -- it must be
13 done right. There must be a way and a
14 willingness for government to step in to stop
15 those experiments that go wrong.

16 As people in my state know, I'm
17 a skeptic when it comes to the benefits of
18 energy restructuring. Almost five years ago our
19 state legislature considered retail restructuring
20 on the assumption that it would result in
21 competitive markets that offer consumers
22 innovative and lower prices and better service.

23 Our Washington State legislature
24 on a bipartisan basis declined to restructure its
25 retail energy markets. And the disastrous

1 experiences since then in California and Montana,
2 and elsewhere, only serve to reinforce our
3 skepticism.

4 That is not to say that I
5 don't believe in markets; I do. I strongly
6 believe that free and fair competition can bring
7 tremendous benefits to consumers. But I'm not
8 convinced that free and fair competition is
9 possible in the energy market in the same way
10 that it may be for other commodities.

11 Let me tell you why I take
12 this view. In a free market there is
13 elasticity of demand. And when the price of
14 the commodity goes too high, the consumers of
15 that commodity can and will find substitutes.
16 But what substitute does a farm or factory have
17 to the use of electricity. Sure, he can stop
18 purchasing electricity, but then it must curtail
19 operations, lay off workers and hurt families,
20 and deprive consumers of the goods it produces
21 and the crops that it grows. And how do we
22 sustain an economy without affordable power?

23 In a free market there's ease
24 of market entry and exit. When demand is high
25 and supply is low, new providers can come into

1 the market quickly and easily. Yet new power
2 plants require 12 to 24 months or more to
3 build. And as we've seen this year, a region
4 can suffer a lot of economic pain in a very
5 short period of time.

6 In a free market, consumers have
7 a choice of service providers. Yet last year
8 we saw a wholesale energy market in chaos, so
9 that utilities had no choice but to buy from a
10 handful of wholesale energy providers whose
11 prices bore little relationship to the cost of
12 production. This was, I believe, the improper
13 exercise of undue market power.

14 So in my view, energy
15 restructuring itself should not be the policy
16 goal. Deregulation itself should not be the
17 policy goal. Competition itself should not be
18 the policy goal. There is one and only one
19 policy goal: To ensure reliable and affordable
20 energy for businesses and consumers who depend on
21 it day in and day out.

22 In Washington State we have
23 chosen to achieve this objective through locally
24 and state regulated utilities that have a legal
25 obligation to serve. Competitive wholesale markets

1 can help our utilities manage a portfolio of
2 resources and keep rates low. But I see these
3 wholesale markets as a compliment to
4 state-regulated retail electricity service, not a
5 substitute for it.

6 Federal policies regarding
7 wholesale power and transmission markets should
8 complement state and local regulation in our
9 state, not supplement it.

10 Mr. Chairman, I know that you
11 and I disagree on the potential for competition
12 in electricity markets. That's fine. We can
13 agree to disagree. But I think that we fully
14 agree that policy makers should not advocate
15 change simply for the sake of change. Instead,
16 let's clearly identify the problems facing our
17 region that must be addressed, and let's address
18 them. Let's be certain that we have correctly
19 identified the problems before we impose untested
20 solutions. And where the benefits of change are
21 speculative or uncertain, let's make sure that
22 the costs of getting it wrong don't dwarf the
23 benefits of getting it right.

24 Let's use transmission as an
25 example. I know there's a lot of discussion

1 about new structures for governing the
2 transmission system. But to me the issue is
3 not whether or how to create such new
4 structures; the issue is much more basic. Do
5 we have a transmission problem in the Pacific
6 Northwest? If so, what is the precise nature
7 of the problem? And then and only then, how do
8 we solve the problem that we have clearly
9 identified?

10 Well, our region is unlike other
11 regions of the nation. BPA owns more than 80
12 percent of our transmission lines. And it has
13 eminent domain authority over the construction of
14 new lines. As BPA will tell you today, BPA is
15 moving forward to build new transmission. It
16 has identified some nine projects, representing
17 300 miles of new transmission that are needed.
18 And these projects are under development and
19 should be completed between the year 2002 and
20 2005.

21 So is there a problem? Well,
22 yes, there is. The problem is that BPA needs
23 additional borrowing authority to make these
24 transmission upgrades. Is there a solution?
25 Yes. We all need to urge Congress and the

1 Administration and OMB to support increased
2 borrowing authority. That is the number one
3 transmission issue facing the Northwest.

4 Are there benefits that may come
5 from changing the way our region manages
6 transmission? Maybe there are. And FERC is
7 right to conduct a thorough inquiry into the
8 matter. But don't assume those benefits. And
9 don't assume the benefits are the same in every
10 part of the country. Indeed, in our region,
11 because of BPA, we already essentially have open
12 access to wholesale transmission, coordinated
13 scheduling and operation, regional planning, and
14 eminent domain authority, the very benefits that
15 some seek through the creation of new
16 organizations.

17 And because there is no apparent
18 crisis in development of new transmission in our
19 region, I see no need to rush to form new
20 organizations or consolidate all of the western
21 regions into one. Rather, let the current
22 discussions continue in the Northwest among
23 people who understand the special characteristics
24 of our region, because our region is different.
25 More than half of our power is hydropower. And

1 that means that energy policy in the Northwest
2 is inextricably tied to agricultural policy,
3 environmental policy, state and tribal relations,
4 nautical transportation and, indeed, recreation.

5 It also means that our
6 generating facilities do not so much compete as
7 cooperate to achieve optimal efficiency.
8 Moreover, most of our power generation is
9 publicly owned and serves publicly-owned
10 utilities. We don't fit into a west-wide,
11 one-size-fits-all organization model.

12 Let me also say that I've known
13 Bud Pearle (phonetic) for many, many years. And
14 I have great confidence in him to facilitate a
15 thorough discussion of these issues with the
16 stakeholders in the Pacific Northwest. Give him,
17 give us, the benefit of a thoughtful and
18 thorough process that achieves a regional
19 consensus and achieves the goals for all of us,
20 FERC, the Northwestern states, utilities and the
21 state commission, the type of goals that all of
22 us want to see.

23 As I said before, for the risk
24 of getting it wrong far outweigh the benefit of
25 getting it right, it's imperative that we do it

1 right the first time. And I'll leave that to
2 others today to give you the details about
3 generation, pipeline infrastructure, and demand
4 response, and prices of the Pacific Northwest.

5 But here, too, I think our
6 infrastructure is fundamentally sound. We're
7 moving effectively toward needed generation and
8 transmission infrastructure enhancement. And we
9 have effectively engaged the demand side in
10 responding to drought-driven power supply concerns
11 over the past year.

12 Are you seeing new generation
13 plants in Washington State? Yes, you are.
14 There are currently six gas fire plants under
15 construction, bringing an additional 2,100 MWs
16 on-line within two years. We're also home to
17 the nation's largest wind project, a 300 MW
18 capacity project along the Oregon border in
19 Southwestern Washington, already 75 MWs is
20 operational and connected to the grid.

21 This year I signed comprehensive
22 legislation that streamlines our power plant
23 siting procedures. We now have some 4,000 MW
24 of gas fired projects in various state and local
25 permitting processes. We also have several wind

1 projects in the planning stages. This doesn't
2 include some 750 MW of newly completed gas fired
3 capacity outside Washington, but located in the
4 Pacific Northwest and serving Washington, or the
5 800 MW currently under construction outside
6 Washington, but within the Pacific Northwest and
7 serving us.

8 Are we seeing expansions in
9 pipeline capacity necessary to transport gas to
10 these plants? Yes, we are. Both interstate
11 pipelines serving Washington, have expansion open
12 season underway. We understand they have
13 additional expansions planned in the next two or
14 three years.

15 Have we engaged the demand side
16 to address recent drought-related supply
17 shortages? Yes, we have. The Northwest Power
18 Planning Council estimates that regional energy
19 demand has been reduced over the past year by
20 as much as 4,000 AVM (average megawatts), four
21 times the electricity use of the City of Seattle
22 -- none of that through blackouts or involuntary
23 curtailment, by the way. The shutdown of aluminum
24 smelting load contributes the largest share,
25 about 2,500 AMW. The remaining 1,500 is made

1 up of demand response programs managed by
2 customer response to conservation of use.

3 Let's not pursue further changes
4 in our energy markets unless and until we know
5 with certainty that the benefits outweigh the
6 risk. Rather, let's focus on what we need to
7 do immediately. Let's work together to ensure
8 that BPA has increased borrowing authority.

9 Let's work together on reliability legislation
10 that ensures a proper role for both state and
11 federal entities. Let's work together to rebuild
12 confidence that the wholesale power markets are
13 effectively policed. And let's acknowledge that
14 both the states and federal government have
15 important roles to play in regulating energy
16 markets. These roles should be maintained.

17 Let me conclude by simply saying
18 to Chairman Wood and Commissioner Brownell, thank
19 you so much for coming to the State of
20 Washington, and thank you especially for your
21 part in bringing stability to the wholesale
22 markets this year. We look forward to working
23 with you on these very challenging, very complex
24 issues in the year ahead.

25 And to Governor Hull, we'll see

1 you and the Diamondbacks in Seattle next year.

2 Thank you.

3 MR. WOOD: I want to thank
4 you, Governor Locke. I would like to think
5 there was some Texas team in there. But we
6 weren't evening in the hut this year. So we'll
7 travel next year, I'm sure, as well, to wherever
8 it may be.

9 I thank you for your time today
10 and your thoughtful comments. I think, certainly
11 I speak for Nora when I say it was difficult
12 for us, as people with pretty firmly pro-market
13 credentials coming into the FERC job. As a very
14 first vote, we had to put the price of
15 mitigation plan in over the entire western half
16 of the country. It was a little humbling to
17 have to do that.

18 And I think that was quite
19 frankly the impetus for what we're doing here.
20 In most peoples' minds there were two things
21 that weren't working that well, the sufficiency
22 of the infrastructure to meet the needs, and
23 certainly the reliance on hydro, which is usually
24 a very strong plus, both environmentally and on
25 the cost side. It's kind of a minus when there

1 wasn't as much power there that the region
2 usually depended on. So the infrastructure
3 question really led the push for us to do this
4 today. And most of the people also argue that
5 part of what was going wrong, particularly in
6 the State of California, was that the market
7 rules that govern the competitive wholesale
8 market in fact did not work.

9 So the combination of imbalanced
10 market roles and questions about the sufficiency
11 of infrastructure have really been, for us, the
12 hallmarks of what we'll be doing at FERC in the
13 coming four years.

14 And starting here in the part
15 of the country where that was most pronounced a
16 problem, that's why we're here first. And I
17 think what we learn from here in trying to
18 restore health to the markets to the extent that
19 we can, so that she and I never have to do
20 another vote like that. We'll do what we have
21 to, but I think we'd rather attempt to work
22 together to solve problems before they ever
23 happen again.

24 That's the underpinning to what
25 we're out here to learn about. For the rest of

1 the day, we're here as students. We're here to
2 listen and learn from our colleagues at the
3 state level and the provincial level, and also
4 from the folks in the industry, to really figure
5 out how we never get here again. Because
6 although Seattle is a nice place to be, the
7 western power markets weren't a nice place to be
8 over the last eighteen months.

9 So we're going to take a little
10 break. We're going to set up for our first
11 panel. We'll break about ten minutes, and
12 please feel free to visit around and come back
13 in about ten. Thanks.

14 (A brief recess was taken.)

15 MS. GRANSEY: Good morning. My
16 name is Marsha Gransey, and I am Deputy General
17 Counsel with the FERC. And I'm going play bad
18 cop here for just a second this morning.

19 Before we begin -- and it
20 should be clear from the agenda and Pat and
21 Nora's initial remarks, the purpose of today's
22 conference is to generally discuss infrastructure
23 issues. It's not to deal with issues impending
24 for hydropower, natural gas certificate, or RTO
25 proceedings. Those matters will be dealt with

1 in individually-docketed cases. The statute, the
2 Administrative Procedure Act, the Commission's
3 Rules and Fundamental Fairness, prohibit
4 Commissioners, the Chairman and the Commission
5 staff from discussing the merits of contested
6 proceedings.

7 Therefore, I encourage all the
8 participants here today to focus on the agenda
9 issues and avoid discussing individual cases. If
10 anyone desires to participate in those individual
11 proceedings, information on how to do so can be
12 found on the Commission's website at
13 www.FERC.gov.

14 And if there's any questions on
15 the statute or the Commission's rules, I'd be
16 happy to talk further with anybody. Also, if
17 you are on a break, if you pull a particular
18 staff person aside, this rule also applies there,
19 too.

20 So please don't discuss
21 individual proceedings with us, because we're not
22 permitted to do that under law. Thank you.

23 MR. WOOD: Thank you, Marsha.

24 MR. MILES: Welcome. It's a
25 privilege to be your facilitator today. We have

1 a distinguished group of speakers representing a
2 number of different interests, who may also have
3 many problems. Our goal today is to identify
4 structures that need to be built, as is set
5 forth in the agenda that was handed out earlier.

6 So as we start to address the
7 near-term energy infrastructure needs, some of
8 the questions that I would ask you to consider:
9 What needs to be built today? What happens if
10 these needs are not built? And of those needs
11 that we identify, which ones should be given a
12 higher priority?

13 Some ground rules: My role is
14 to keep you on track, keep you within that
15 agenda, of the goal that we have set forth. We
16 have an hour and forty minutes. Each of you
17 has up to five minutes. And if you start to
18 go over five minutes, I will stop you.

19 Also, at the end of your
20 presentations, I would hope that each of you
21 engage in conversation with each other. Think
22 of it as if you were in a board room or a
23 meeting room, and you were there, we just happen
24 to have a large audience today.

25 So I will not identify you

1 initially. As we go through the presentations,
2 I would ask each of you to identify who you
3 are, and to state who you represent and what
4 your role is.

5 Ed, who is behind me, and I
6 will record the main points. What we will
7 attempt to do is try to identify, as we set
8 forth in our objections for the session, what
9 needs need to be met, or rebuilt, and we'll
10 list those on the flip charts that you see
11 behind me. And then once we go through and
12 identify those needs, we'll engage in a
13 conversation about those needs. And then if we
14 have time, to identify those which are the those
15 important, and try to prioritize them.

16 I encourage each of you to
17 speak with each other as if you were in normal
18 conversation. To the extent we can achieve a
19 consensus within the time frame on some of the
20 issues that we're going to be addressing, that
21 would be great. We're going to allow the last
22 10 to 15 minutes for members of the audience to
23 ask questions. We have two microphones on both
24 sides of the column, so I encourage the
25 audience, if they have questions, to hold off on

1 those questions until we get to the last 10 or
2 15 minutes.

3 Again, this is not your
4 traditional panel presentation. You will make a
5 five, ten-minute presentation and then sit down.
6 We want to really have a good discourse,
7 dialogue between each of you.

8 Do not think you have to get
9 my approval in order to speak. But should more
10 than one person want to speak or comment on an
11 observation made by another, I will try to keep
12 track of which of you would like to make those
13 things. Again, equal participation is important.
14 And as your facilitator, I will remain impartial
15 toward the substance of the topics under
16 discussion.

17 And finally, with your help and
18 cooperation, I think we can achieve our goal
19 this morning. Any questions? Thank you.

20 Let's begin. Our first speaker
21 is Mr. Prescott.

22 MR. PRESCOTT: By way of
23 introduction, I am John Prescott. I'm the Vice
24 President of Power Supply for Idaho Power
25 Company, which is a vertically-integrated

1 regulated utility that serves most of Southern
2 Idaho and a little bit of Eastern Oregon as
3 well. I do want to thank the Commission for
4 this opportunity. Commissioners, thank you for
5 this.

6 The question that was before us
7 in this particular panel, the first question
8 deals with what needs to be built. And from my
9 perspective, that's a very, very simple question.
10 It's a simple question because we need more
11 transmission where there's constraints, and we
12 need more generation near the load. That's the
13 simple answer.

14 I think the more difficult
15 question really is: How do you make it happen?
16 What are the issues that create barriers for
17 that to happen? I break it down into three
18 different areas. I usually do things in threes
19 because my head can't handle over that.

20 The first one is certainty.
21 The second one is an understanding of regional
22 issues. And the third is customer choice.
23 Taking the first one, which is certainty, we
24 find that we can manage market uncertainty. That
25 can not done with different trading options and

1 tools. But the thing that's very difficult to
2 manage is political and regulatory uncertainty.
3 That's a huge barrier.

4 Understanding regional issues.

5 I think Governor Locke put it very well when he
6 stated there's a tremendous amount of difference
7 between this region, the Northwest, to other
8 regions, even within the west, vis-a-vis
9 California and the desert southwest. So it's
10 important to understand the diversity and
11 differences between the regions in the west.

12 And finally, the third point,
13 consumer choice. Consumers have a growing
14 appetite for electricity in the west, and I
15 think you saw that in the presentation this
16 morning. As long as that demand continues to
17 grow, we're going to have to serve that demand.
18 Now, the thing that I think consumers need to
19 be involved in is managing the risk parameters
20 that go into electricity. And also they need
21 to be accountable for those choices in the form
22 of the rates that they pay for the commodity.

23 And then finally, in that last
24 piece, I think it's the wise use of the
25 resource, which comes down to a consumer choice

1 as well.

2 MR. MILES: Thank you. The
3 next speaker.

4 MR. MOORE: My name is Michael
5 Moore. I'm a Commissioner with the California
6 Energy Commission, and I do appreciate being here
7 with my colleagues very much as well. And for
8 those of you who are interested in the details
9 of what I'm just going to just highlight,
10 they're available on our website at the
11 California Energy Commission under the title of
12 the "California Natural Gas Infrastructure
13 Report."

14 What happened in California can
15 be briefly described as shortages and high
16 prices. We had tight high-volume supply
17 conditions on the intrastate system, and we had
18 unusually and extremely high prices in high
19 volatility and supply, which destabilized the
20 whole system very late in 2000 and 2001.

21 Several factors contributed to
22 that. First, insufficient receipt capacity
23 within California and the capacity on the El
24 Paso Pipeline System contributed to the high
25 price of gas in late 2000. And as a result,

1 we didn't have gas-on-gas competition that might
2 have made a lower price possible.

3 Second, winter gas demand,
4 especially for electric generation, was
5 significantly higher than normal. And as a result
6 of unusually high natural gas demand from the
7 California gas utilities interstate pipelines,
8 especially in Southern California, ran at nearly
9 full capacity at times, again, eliminating the
10 amount of gas-on-gas competition, and could have
11 brought prices down.

12 Some other factors that
13 contributed, large Southern California gas
14 customers began the winter heating season last
15 year with record low storage in inventory.
16 California wasn't currently receiving the full
17 amount of firm interstate capacity it was already
18 contracted for. We had significant short-term
19 increases in well net prices costing less,
20 contributing to the price increases in
21 California. And the electric generators, given
22 the market conditions of basically indifferent
23 capacity, nullified natural gas prices within the
24 state.

25 You can draw several conclusions

1 from that. First, California can't plan in the
2 future as if we still lived in a regulated cost
3 plus environment. Second, we found that gas is,
4 quite obviously, relatively expensive and subject
5 to pretty volatile price swings. And third,
6 that we are dealing with a different kind of
7 condition than we'd planned for in the past.
8 First is that we had built and are building in
9 a reliance on a gas mono-culture that didn't
10 exist before, that has significant long-term
11 implications for investment and in terms of
12 stabilizing overall supply.

13 Second, we have a second peak
14 that we hadn't planned for before. And it is
15 capable of destabilizing the system if we rely
16 on the old planning paradox.

17 And finally, that upstream
18 demand is increasing. Governor Hull pointed part
19 of that out this morning. We have significant
20 upstream demand that has not been accounted for
21 in some of our planning. And it needs to be
22 taken into account not only by us, at the
23 downstream end of the pipe, but by the FERC
24 Commissioners as well when they're considering
25 pipeline expansion.

1 There are some expansions coming
2 that are significant and will make a difference,
3 both in Southern California and along the PG&E
4 line. But there are uncertainties that remain
5 that have to be taken into account, a potential
6 cold winter uncertainty; need to match storage
7 injection with demand; and finally, potential
8 drought conditions that could lead to, as the
9 English say, knock-on conditions elsewhere in the
10 system that we need to take into account in our
11 planning and in our regulatory environment, which
12 we have frankly not done in the past.

13 MR. MILES: Thank you,
14 Commissioner. Mr. Williams?

15 MR. WILLIAMS: My name is Jacob
16 Williams. I'm Vice President for Peabody Energy,
17 Vice President, Generation Development. I'd like
18 to thank you for the opportunity to address the
19 energy infrastructure needs in the country to
20 provide low cost and reliable and secure
21 electricity to the customers. And I congratulate
22 FERC on the aggressive discussion on transmission
23 today. I believe transmission is our biggest
24 area in the energy marketplace.

25 Quickly, Peabody Energy is the

1 largest coal company in the United States.
2 Seventeen percent of the coal produced in the
3 United States, which equates to 9 percent of all
4 electricity in the United States, comes from
5 Peabody-derived coal. We have operations in all
6 the major coal basins, just as background.

7 The coal and rail infrastructure
8 in the United States is very adequate to meet
9 the growing energy needs, particularly in the
10 west, where probably basins supply a third of
11 the U.S. coal demand for power plants, and it
12 has continued to grow. The rail infrastructure
13 has continued to put quite a bit of dollars
14 into that rail infrastructure, and has done a
15 nice job. So from the coal side, things look
16 pretty good.

17 Our major concern is not the
18 coal transportation, it is the electron highway
19 that is our major concern for energy policy.
20 If you step back for a moment and look at what
21 has gone on in the last twenty years, we as a
22 country have lived off the excess base load
23 nuclear, hydro and coal-based generation built in
24 the late '70s and '80s and the associated major
25 transmission lines that were built in that time.

1 We have lived off that for the last twenty
2 years, much to the benefit of ignoring electric
3 prices over the last ten years. Electric prices
4 have gone down because we've utilized those
5 resources.

6 But now the tide is turning.

7 In the west we have effectively utilized all the
8 base load energy resources. They are not fully
9 utilized, and gas is on the margin in all these
10 hours. We are in a new day, and everyone in
11 the west needs to realize that. In the east we
12 have about five to eight years more of base
13 load resources before new ones need to come in.

14 The other startling fact to
15 think about is in the last twenty years,
16 electric load growth in the United States has
17 been about 60 percent. And during that same
18 period of time, the high voltage transmission
19 system, the number of miles expanded, has only
20 been 15 percent. Now, going forward, if you
21 look at another 20 percent growth in the
22 electric demand over the next ten years, on the
23 books there's less than five percent expansion in
24 the high voltage transmission system. There's a
25 problem here. We're not expanding the system, and

1 we haven't done it for twenty years. We're
2 falling into the dangerous trap to of saying we
3 can replace transmission with generation out
4 load. By definition, when you do that, you're
5 creating market power through generators that are
6 sitting at load, because there is not enough
7 transmission to replace that generation if it
8 goes away. You're also putting all of the
9 market right in the gas curve in those areas
10 where you do that. Again, that's a policy
11 issue which one needs to consider.

12 Finally, if you think about it
13 from transmission standpoint, you're actually
14 putting more generation right in the highly
15 urbanized areas that have a lot of air quality
16 issues to begin with. Those are issues that
17 need to be considered.

18 WGA put out a wonderful
19 transmission study which many of you have seen.
20 One of the key findings in it was starting
21 about page 42 and beyond, it was noted that if
22 you build extra transmission, about \$6 billion
23 worth in the we western U.S., and you couple
24 that with a diverse resource addition of gas,
25 coal and renewables, that that \$6 billion will

1 be paid back in less than one year in market
2 price savings. Now, that's not in the Executive
3 Summary, but in the report that's there. And
4 it would actually pay for itself much quicker if
5 in fact you have a high gas price scenario. So
6 the documents are there. There are other reports
7 going on that point out the fact that
8 transmission is the way to mitigate market prices
9 throughout.

10 And one quick example right here
11 in the west, Path 15. It's a \$300 million
12 expansion. That \$300 million expansion could
13 have easily been paid for by the extra \$20
14 billion California paid for power last year. It's
15 a very cheap insurance policy, and it's out
16 there.

17 The insurance policy is against
18 weather variation, it's against fuel price
19 volatility, against a catastrophic event.

20 It would appear in the U.S.
21 that what we're doing is strictly reliability
22 planning the electric system. We are not
23 planning the system to provide low cost and
24 affordable energy. And that's what we need to
25 be about now.

1 Finally, our economy is based
2 upon low cost energy. Ask the aluminum and
3 steel and pulp and paper of the Northwest what
4 happens when reliable low cost energy is not
5 there. They seem to not operate as well.
6 We're in the business of supplying energy to
7 customers, that is our job, and to make it low
8 cost and affordable. It is the electric
9 transmission system which is the backbone that
10 allows us to do that. That has not been
11 expanded. And we ask that we do everything we
12 can to get that expanded.

13 We can talk about RTOs, price
14 mitigation, adjusting costing, et cetera. If we
15 don't build anything, it won't matter what kind
16 of organization we have.

17 MR. MILES: Mr. O'Hearn?

18 MR. O'HEARN: Good morning. My
19 name is Dan O'Hearn; I represent Powerex, which
20 is a wholly-owned subsidiary of BC Hydro in
21 Canada. I'd like to thank FERC for inviting us
22 here today to participate in the panel. I have
23 a prepared presentation with some very specific
24 points I wanted to bright out. But it's been
25 really clear this morning from earlier

1 presentations that the most important thing that
2 we can say is that, don't ignore Canada.
3 Whenever you're looking at issues for
4 transmission infrastructure, that you have to
5 include Canada, because there's 18,000 MW of
6 generation north of the Washington border, in BC
7 and Alberta, 10,000 of that is in BC. That's
8 existing. There's new generation planned in both
9 BC and Alberta. And we need infrastructure to
10 bring that to your markets.

11 With the 10,000 MW that are in
12 BC, 9,000 of that is hydroelectric. This past
13 year we've benefitted from high prices, we've
14 also been hurt from high prices. In the next
15 year we're also forecasting a net deficit in
16 energy. We generally export power in the
17 summertime and the spring when there's excess
18 hydroelectric capacity in our system. In the
19 fall and winter we turn around, we buy from
20 California and others and bring that back to BC.

21 This season of diversity has
22 benefitted not only ourselves, but the U.S.,
23 increased efficiencies brings down market prices
24 in general. I would say we are the largest
25 physical power player in the west, and that we

1 move the most amount of physical power. We buy
2 and sell not only power from BC, but throughout
3 the entire west, purchase transmission, moving it
4 from the low priced regions to higher-priced
5 areas. This again creates efficiency in the
6 markets. We're looking at transmission
7 infrastructure that's really both short-term, and
8 long-run solutions that are required. The
9 short-run solutions are ones that can be done
10 fairly quickly, and are currently keeping energy
11 in the markets that exist. They generally
12 involve operational fixes, and the constraints
13 are often institutional rather than physical. It
14 is necessary to fix these institutional problems.

15 The long-run solutions are the
16 transmission capacity upgrades that solve physical
17 capacity issues in the system. I have quite a
18 few examples of institutional ones that I am
19 going to leave off for now in the interest of
20 time, and we can come back to later. I want
21 to focus on the physical side. And that's new
22 transmission lines.

23 Governor Locke alluded to a plan
24 of BPA's that's gone through the regional
25 planning process to do upgrades in the Northwest,

1 and we support that. And some of that will
2 benefit the transfer of energy to and from
3 Canada. But what is really needed is a new
4 transmission line from BC into Washington State.
5 And doing upgrades is not enough. This line
6 should be a high voltage line. We propose that
7 it should be from Eastern BC into Washington
8 State, as opposed to where the existing lines
9 go, which is along the West Coast through
10 Seattle.

11 It's very difficult to site a
12 new line in the Seattle areas due to
13 rights-and-way issues. So again, what we really
14 need is an Eastern BC south to Washington State
15 line. I believe that what's proposed in the
16 western Governors' Report. This will allow
17 existing surplus capacity within BC and Alberta
18 that can't be brought to the market in the
19 summertime. As well, there is the new proposed
20 generation built in Alberta. This is a
21 revitalized market in BC. And the major barrier
22 facing that market is a lack of transmission
23 access to the U.S.

24 BC stands prepared to work with
25 FERC and the other key players in the U.S.

1 market to make the necessary operational changes
2 and transmission infrastructure investments to
3 make the western electricity grid a reality.
4 It's going to take strong FERC leadership and
5 direction to get the job done. BC supports
6 FERC's efforts to make that happen. Thank you.

7 MR. MILES: Thank you. Mr.
8 Howard?

9 MR. HOWARD: I'm Bob Howard.
10 I'm the General Manager of PG&E Gas Transmission
11 - Northwest. We're in our 40th year of
12 operations, which started on December 2nd of
13 1961, so we're very proud of our record as a
14 pipeline. And many of you here know us also as
15 Pacific Gas Transmission, or PGT.

16 I'm here today, let me assure
17 you, to endorse Canada, because I am the single
18 largest importer of Canada; single largest
19 importer of everything. It's not just gas, it's
20 the largest single importer of Canada by the
21 volumes of gas that move through our pipeline.

22 So, Marilyn, don't forget
23 Canada, that's for sure. Ninety-nine percent of
24 my gas comes from Alberta. And Randy has never
25 let me forget that.

1 I will answer the questions
2 first and offer a few comments. What needs to
3 be built today? I'll say that in the context
4 that the public has obviously, from this year,
5 tremendous concern over price volatility in
6 markets. And I will speak to the Pacific
7 Northwest and my remarks as a priority. The
8 Pacific Northwest, particularly the population
9 centers on the western side of the Cascades,
10 needs more direct access to natural gas from
11 Alberta. The existing systems that provide gas
12 through Stanfield are very constrained, and we
13 need to create gas-to-gas competition, supply
14 based competition. And what happens if that
15 doesn't happen? You'll continue to have price
16 volatility, significant price volatility.

17 Natural gas is a critical part
18 of the infrastructure in the Western United
19 States and Canada. And I want to represent the
20 view, particularly to the folks of the Federal
21 Energy Regulatory Commission who are here, and I
22 appreciate you all being here, that the market
23 structure for pipelines works. And it's been
24 working for ten years. And it has survived
25 three major crises for events in the marketplace,

1 including the energy crises that we experienced.

2 And I would represent the view
3 that in addition to all the regulatory actions
4 that were taken, that the liquidity that exists
5 today in the gas markets, because of the
6 structures that we have, was a key to where we
7 are today and being able to bring us through
8 that crisis, because the trading continued; it
9 continued very smoothly.

10 I'm going to put natural gas in
11 perspective for all of the electric folks in the
12 room. GTN, which is a system that delivers on
13 average about 2.4 BCF a day throughout its
14 system, moves four times the energy that is
15 transmitted on BPA every day. That's the amount
16 of energy content in the gas. And pipelines
17 are extremely efficient and benign way to
18 transmit megawatts.

19 On a peak day, as much as
20 one-third of the volumes are delivered in the
21 Pacific Northwest. And those deliveries to the
22 Pacific Northwest have grown in the last ten
23 years almost five times. And I do say, if you
24 look at it from the perspective, since we are a
25 major supplier to California, that growth has

1 been supported by incremental expansion of Gas
2 Transmission Northwest. It has not been at the
3 sacrifice at any other region of the economy to
4 produce that. It's been supported by
5 certificates expanding that capacity to meet the
6 increases in demand and keep up with the growth
7 in the region.

8 I know, and even if you look
9 at neutral sources in a way, but just like the
10 FERC has offered, there has been tremendous
11 growth and demand in the Northwest. And the
12 perception of that demand in the Northwest has
13 been growing. So I use that as an example.
14 But the perception of the needs in the Northwest
15 based upon the GRI baseline figures, have
16 probably grown, just in terms of their forecast
17 from year 2000 to 2001, has grown as much as 10
18 percent. So we need gas, we need
19 infrastructure, to support that. And no matter
20 whether it's a competitive or regulated
21 environment, if you don't build facilities,
22 you're going to have disruptions the marketplace,
23 whether it's regulated or unregulated. And peak
24 system capacity in the Pacific Northwest, the
25 peaks are very constrained.

1 And power plants are only --
2 power plants are not the only reason for growth.
3 I mean, there is growth across the board to
4 support the industries in the western region, to
5 support residents, consumers, to support
6 commercial business. The supply is there.
7 We've had very positive news out of every basin
8 serving the west, the Rockies, having produced
9 about an increase in supply, of actually
10 delivered supply, of almost 400 million cubic
11 feet a year.

12 The Canadian basin, particularly
13 the western Canadian sedimentary basin, is up
14 over 700 million cubic feet. And that's just
15 from this last year's effort to increase supplies
16 to the basin, the significant growth program.
17 So the gas is there.

18 And so from my perspective, what
19 we need to be doing is when we see a
20 constraint, we need to fix it. In the Pacific
21 Northwest, on our system alone, we have added
22 900 MW of capacity that is actually directly
23 taking supply. Today, direct usage of natural
24 gas, directly off of our 612 miles of pipeline,
25 is 13 percent. And that's just directly served

1 in power plants. But that's not the whole
2 story. We serve LDCs. And about 50 to 60
3 percent of the volumes of our pipeline is
4 serving power plants. So it's a critical part
5 of the energy infrastructure.

6 MR. MILES: Thank you. Mr.
7 Jespersen?

8 MR. JESPERSEN: Thank you. I
9 hope in some small way my comments today will
10 be useful. My name is Randy Jespersen. I'm
11 Senior Vice President with PC Gas Utility out of
12 Vancouver, British Columbia.

13 We've had the supply demand
14 factors being analyzed and under a microscope now
15 for some four years, in the I-5 corridor in
16 particular. By "I-5 corridor," I mean it's that
17 region north of California in western Washington
18 and western Oregon, with whom British Columbians
19 share a common natural gas infrastructure and are
20 co-dependent in our ability to use the capacities
21 there, which are bi-directional in the case of
22 Northwest Pipeline, and a link that we have made
23 between the West Coast Pipeline and the
24 Alberta-to-California trunk of Trans-Canada and
25 PG&E.

1 In part of this analysis over
2 the last four years, the call that we had made
3 of what we potentially face in this region was
4 very significant, in our estimation, if we ran
5 into a capacity shortfall on natural gas
6 transmission capacity.

7 And in fact, there's very little
8 comfort in having been right in making that
9 call, because though price shot protection was
10 very important and we called for that as a
11 reason to ensure that there was additional
12 pipeline capacity into the region, being right on
13 that call, again, held no small comfort
14 whatsoever when we looked in hindsight now after
15 last winter, in seeing how wrong we estimated
16 the significance of what that impact would be.

17 If I can speak for a moment in
18 terms of the primary goal of energy policy and
19 regulation. I may be a little off-side with
20 Governor Locke, but not terribly far. I think
21 we're saying it's a question of which end of
22 the telescope one looks through.

23 In our view, the primary goal
24 of energy policy and regulation should be to
25 support the creation of a well-functioning

1 wholesale market. Because without that, I don't
2 think we achieve what Governor Locke was
3 referring to. And that is, How do we get to
4 reliable and affordable energy pricing for
5 consumers? The two are inextricably linked. So
6 what is the a critical success factor to that,
7 in our belief, is ensuring adequate
8 infrastructure to allow multiple buyers and
9 sellers at the wholesale level to meet.

10 Experimentation at the retail level is for naught
11 if we haven't met this pre-condition.

12 In terms of adequate pipeline
13 capacity, in our analyses we indicated that there
14 was something near 200 million a day of surplus
15 pipeline capacity to meet what would be in a
16 normal year demand pattern through the winter, to
17 meet peak supply last winter. And in fact,
18 that's correct, in a normal. But in forecasting
19 normal demands, one does not build in as normal
20 the hydro conditions that we've experienced of
21 late.

22 And the earlier presentation, in
23 terms of just how drastically an increase there
24 has been in gas fire power generation in this
25 region, bodes well in explaining why we had the

1 crises that we did in terms of price volatility
2 last winter.

3 If we have adequate capacity, as
4 was suggested in the presentation analysis
5 earlier by FERC staff, I would hate to think
6 what would happen as we see another 750 to 1.2
7 billion a day of additional demand come onstream,
8 which is our estimate of what would will take
9 place between now and 2004. And that analysis
10 is based on the integrated resource planning
11 submissions of the state, or of the local
12 distribution companies in British Columbia,
13 Washington, and Oregon.

14 So again, if we were -- if it
15 was adequate transmission capacity last year,
16 heaven forbid, because the amount of capacity
17 expansion on the interstates for 2003, 2004, does
18 not meet that total requirement.

19 So what is the cost of being
20 wrong? By way of example, had a pipeline
21 length existed from Alberta all the way to
22 Vancouver last year, and the full cost of
23 service of that was paid. And because, let's
24 assume we were in a hydro environment, so that
25 capacity wasn't utilized whatsoever. The total

1 annual cost of unutilized demand charge
2 obligations would have been in the neighborhood
3 of \$50 million U.S. dollars.

4 If we look at the prices of
5 last December and January of Sunas, over the
6 international border between BC and Washington,
7 and compare that to Alberta, the value of that
8 arc, it we've been able to close it, was in
9 excess of \$125 million. So two months alone
10 would pay for substantial -- I'm sorry -- two
11 months would have paid for over two years worth
12 of demand charge obligations.

13 The challenges, as I see it,
14 for all of us in this region are pretty simple.
15 And that is to recognize that the next round of
16 infrastructure will be market versus supply
17 driven. There is not proper capacities,
18 production capability, and that is likely to be
19 the case for some time. So it's going to be
20 the marketplace that has to be the one that
21 steps up and makes the long-term commitments.

22 How do we do this? Well,
23 we're experimenting with retail deregulation of
24 the potential risk exposure to utility companies
25 for being second guessed on other post facto

1 review basis by state utility commissions or
2 provincial utility commissions as to whether they
3 made the right decision in signing those
4 contracts and find that we are in high hydro
5 environment.

6 A lack of comprehensive energy
7 policies at the regional level. And I think
8 this is a regional level. I don't think there
9 are major federal barriers, either FERC or
10 National Energy Board on either side, I think
11 it's we in the marketplace that need to
12 collaborate and determine what degree of spending
13 reserve in the electric terms, or equivalent on
14 the gas side, is important to have to ensure
15 that one party does not step up to the plate
16 for the benefit of others at the expense of
17 their consumers.

18 So it's the lack of
19 harmonization policies and regulation across
20 borders. Be they state or international, they're
21 important for us to spend some time on. Thank
22 you. Those are my comments.

23 MR. MAHER: Good morning. My
24 name is Mark Maher and I'm representing the
25 Bonneville Power Administration this morning.

1 I'd like to thank FERC for inviting us to
2 participate in this round-table discussion this
3 morning.

4 As Governor Locke said this
5 morning, no utility should be standing by waiting
6 for an RTO to start up in the Northwest to take
7 action to firm up their infrastructure or
8 continue construction of new transmission. And
9 when one looks at the time line that would be
10 associated with a startup of a regional
11 transmission organization, the soonest date that
12 organization could be operational is late 2004,
13 optimistically, or early 2005. And when you
14 overlay the planning process that would occur,
15 the design and the build aspects of putting new
16 transmission in, you'd be waiting ten to twelve
17 years in the Northwest before any new wires
18 could be put in the air.

19 Bonneville is not waiting. We
20 have been undergoing an assessment of our
21 transmission system over the past few years.
22 And we've identified several projects that need
23 to be constructed. And the reason, I think,
24 it's been pointed out this morning -- and I
25 hate to keep throwing a lot of numbers out, so

1 I'll keep it very simple for us -- little new
2 transmission has been built on the Bonneville
3 system since 1987. The last transmission line
4 is that single line you can see going across
5 the middle of Montana that integrates a full
6 strip power plant into the Northwest.

7 Load growth in our system has
8 been about 1.8 percent a year, or just about
9 two percent per year during that time period.

10 Usage of our transmission system has grown about
11 two percent a year, matching that load growth.

12 The margin on our system is gone. We've
13 developed an infrastructure program looking at
14 the needs of our system, and we've established
15 essentially a priority in which we need to find
16 solutions. The first is re-enforcement around
17 load centers in the Northwest. The Spokane,
18 Seattle, Portland areas. The second is to
19 integrate needed new generation projects. We've
20 got about 30 GW of new generation in our queue.

21 And realistically, we probably see about a sixth
22 of that, or 5,000 to 7,000, probably come
23 on-line in the next five years. We need to
24 integrate those new projects.

25 As those projects come on, and

1 as we look at our system and understand new
2 criteria that has been in place by the National
3 Electric Utility Reliability Council translated in
4 the west by the Western Systems Coordinating
5 Counsel, that criteria has had us relook at our
6 system to meet that criteria. And to meet that
7 criteria, we've had to de-rate our system. So
8 our existing contracts must be met. We need to
9 reinforce our system to meet those firm contract
10 needs.

11 Lastly, we need to put a little
12 margin back in our system. You can't run on
13 the edge on a transmission system. There's
14 perturbations that occur that you need to absorb.
15 You need to have those shock absorbers on your
16 car, if you will.

17 So again, our system is heavily
18 congested. Our east-to-west paths, which you can
19 see come across the Rocky Mountains and the
20 Cascade Mountains to get into our major load
21 centers, are congested. And especially in the
22 fall and winter, as demand is up in the
23 Northwest, our north-to-south paths, when load
24 goes down in the Northwest and runoff is running
25 high in Canada in the Northwest, that hydro

1 generation needs to get out of the Northwest.

2 And it helps to serve the peak loads in
3 California and the Southwest. Those paths are
4 congested during those peak periods.

5 The margin that was built into
6 our transmission system has been used up by
7 regional load, as I mentioned, and pass-through
8 transmission. We're also finding outages for
9 maintenance to maintain that system that exists
10 today, are more and more constrained by market
11 needs, so that transmission can be moved, or
12 power can be moved, to our transmission system
13 to meet load. And also, the imposition of new
14 Endangered Species Act requirements, which really
15 shorten the window of opportunity to take your
16 system down to provide maintenance. So if you
17 don't have the redundancy, the parallel paths,
18 built in, you can't take your system down and
19 you're running closer to the edge.

20 Bonneville is actively monitoring
21 what we call eight congested paths, or eight cut
22 plains, on our system of 15,000 miles of high
23 voltage transmission. And we actively have had
24 to curtail schedules on those, at least three of
25 those plains, over the last few years. While

1 the lights have not gone out, it's caused prices
2 in power and inefficient operations of westside
3 hydro plants and westside thermal plants, to
4 operate.

5 So to remedy this, as Governor
6 Locke mentioned this morning, Bonneville has got
7 a series of nine projects. We're actively under
8 planning and construction as we speak. That's a
9 subset, a total of 20-plus projects that we
10 think need to be built on our system.

11 So if we end up constructing
12 all 20 of those projects, we would be putting
13 about 700 miles of 500 KV wire in the air, and
14 much of that is needed. However, as we are
15 moving forward and identifying these projects, we
16 are running them through two regional tests; one
17 is a peer review by our fellow utilities in the
18 Northwest that reviewed these projects to
19 validate the need, as our planners have
20 identified. The second filter we've been running
21 through is a panel of conservation, demand size
22 management, distributed generation experts, to see
23 if there are non-build solutions for our system
24 as we move forward. And the nine projects
25 we're actively involved with, only one of those

1 projects has been recommended for further review.

2 We think this is a model, also
3 as we develop the regional transmission
4 organization, to integrate that sort of filter.

5 So I'll stop there.

6 MR. MILES: Commissioner
7 Anderson?

8 MR. ANDERSON: Thanks. I'm Bob
9 Anderson, I serve on the Montana Public Service
10 Commission. I'm in my third four-year term, my
11 eleventh year.

12 In Montana we are term limits;
13 we're an elected Commission. I want to tell
14 you, term limits are extremely liberating.
15 There's no pandering for re-election and no
16 hiding from what I see as the truth. So what
17 you see is what you get from me.

18 I want to thank Pat and Nora
19 for coming, for inviting us. And especially for
20 your interest in the west, and for your
21 difficult intervention in the western market,
22 which is necessary. And I hope you don't have
23 to do that ever again. But I appreciate your
24 continued attention so that we can, over the
25 long-term, really get things right in the west.

1 To Governor Hull and my friends
2 from Arizona, and with all due respect to the
3 New York Yankees, I think we got them right
4 where we want them. And I look forward to a
5 western victory in the World Series.

6 In the electricity world, I
7 think there are three major societal goals.
8 Number one is economic efficiency. It's what
9 the Federal Power Act calls "just and reasonable
10 rates." Today's terminology, I think, would call
11 it "economic efficiency," getting the best for
12 consumers and for society and for the planet out
13 of the resources that we have, without wasting
14 them, to the extent we can.

15 Second one is reliability. I
16 think the customers want a reliable power supply.
17 But at the same time, it's got to be reasonably
18 priced. That is, we don't want to have more
19 reliability than we can afford to pay for.

20 And third, the public expects,
21 in the words of the Montana Constitution, a
22 clean and healthful environment. You may have
23 your other goals. But I think those are the
24 principal ones.

25 First principal realm is in the

1 world of economic efficiency, or just and
2 reasonable rates. For decades, that was pursued
3 and probably achieved reasonably well through
4 regulation. But if you think about your
5 Economics 101 textbook, think about the supply
6 and demand curves, where the price goes up,
7 supply goes up, and the quantity of supply goes
8 up. If the price goes up, demand decreases,
9 and where those two curves intersect is the
10 market clearing price. And that's the best,
11 most efficient economic outcome.

12 Under regulation we essentially
13 had vertical supply and demand curves. We
14 predicted the demand and we paid utilities to
15 supply, to meet that demand. In today's more
16 modern thinking and more liberated paradigms,
17 we're introducing market forces. The first step
18 in so-called deregulation or restructuring was to
19 liberate the supply curve. We introduced
20 competition into the supply world so we began to
21 have a supply curve, a curve that produced more
22 as the price increases. But we still have a
23 constrained demand curve. In a good, robust
24 functioning market, you have to have both
25 functioning supply and demand curves.

1 So my job here today is to
2 talk about the demand side of the equation.
3 It's not to disagree with my distinguished
4 colleagues, all of whom spoke to supply. And I
5 agree with most of what I heard here. I don't
6 say we don't need more supply, more transmission,
7 more generation. But to get the right amount
8 of a new supply, we have to liberate the demand
9 curve. And that's the challenge that I think
10 FERC needs to pay attention to, as well as the
11 supply side of the equation.

12 There is an abundance of demand
13 size resource. There is study after study after
14 study showing we could have a more efficient
15 energy production and delivery system. There are
16 lots of data points. One is that in
17 California, an infrastructure that met in the
18 summer of 1999, met a demand of 53,000 MW; the
19 same infrastructure failed to meet a demand of
20 29,000 MW in January of this year. What's
21 wrong with this picture?

22 Well, it's about market failure.
23 The conventional wisdom among many, is we've got
24 to build our way out of this problem. We need
25 more supply. We do, but the rest of the story

1 is, let's get the demand side of the equation
2 working at the same time.

3 There are things that FERC can
4 and should do to enable the demand side of the
5 equation to work better. There are plenty of
6 things on the demand side that all kinds of
7 institutions are doing, Congress and state
8 commissions and state agencies and consumers, are
9 doing lots to increase their energy efficiency.

10 But we need to do more, because there are
11 market barriers to that efficient delivery of
12 efficiency programs. We can't give up on that.

13 But there are some things that
14 FERC can do. Well, what are the things that
15 FERC does? The principal one is trying to get
16 the market structure right on the supply side.
17 Deregulating supply doesn't mean eliminating all
18 regulation. It requires very careful regulation
19 to allow supply to operate in a functioning
20 market. And we need robust markets on the
21 supply side, including customer-located generation
22 and distributor generation. That gets to the
23 interconnection standards. And FERC is
24 addressing that. So I won't say anything more
25 about that.

1 But on the supply side, there
2 needs to be a robust market that includes demand
3 side bidding. And to probably be efficient, it
4 needs to have a kind of a multi-settlement
5 aspect; that is, a day ahead bidding that can
6 also be corrected as close to real-time. So
7 you have more than one settlement period. So
8 that the demand side and remote renewables can
9 really bid into that kind of a market. Those
10 take careful market rules.

11 FERC has responsibility for
12 approving the establishment of RTOs. And RTOs
13 have important functions. One is pricing.
14 Pricing of congestion is an important aspect of
15 RTO approval. So the tariffs for congestion
16 management need to recognize the role of demand
17 side bidding to meet constraints; that is, to
18 allocate and price and bid for and allocate
19 constraints.

20 And finally, there's a planning
21 aspect to RTOs. Regional entities that have
22 planning responsibilities for years, but nobody
23 has really had adequate authority to implement
24 plans. So when planning is assigned, there
25 needs to be adequate authority. And that

1 authority should include the responsibility to do
2 robust, what we used to call "integrated resource
3 release cost planning." So the full range of
4 alternatives considered, and that there's a
5 proper authority vested somewhere to implement
6 the outcomes of those plans.

7 So that's the rest of the
8 story. And I appreciate being here today.

9 MR. MILES: Thank you. I
10 think I heard some common themes through some of
11 your remarks. We need to take a look at what
12 is needed. I heard transmission lines.
13 Somebody said transmission lines and long, high
14 power. But I also heard that there are
15 reinforcements around local centers that need to
16 be undertaken. So we had transmission lines,
17 incremental expansion of pipeline capacity.
18 Maybe we can explore that.

19 I also heard one of the things
20 that's needed for the infrastructure is more
21 planning, better planning. There was also
22 something about operational fixes that I think
23 the gentleman said he may have some examples on.

24 So what I'd like to do is have
25 you engage in a conversation about what is

1 needed. Why don't we start first with
2 transmission lines. So we have the long, high
3 voltage transmission lines as opposed to the
4 lines, the reinforcement needed around load
5 centers.

6 Any comments on that?

7 MR. MAHER: In certain respect,
8 both are needed. We're seeing new generation
9 being constructed still away from load centers.
10 And we're asked quite regularly, Where is the
11 perfect spot for this generator? And you see
12 generators getting located at the intersection of
13 pipelines and existing transmission. Well, at
14 the bend of the river, if you will, on the Cle
15 Elum River, we're seeing a lot of new gas fired
16 plants going in. And so to accommodate the
17 integration of those, we're having to build
18 longer transmission lines. We're not looking at
19 intertie type of transmission. But, you know,
20 hundreds of miles essentially of transmission to
21 ensure that that can get to load centers.

22 The problem with putting a
23 generator in a load center, as was mentioned
24 here earlier, that generation has to get out; we
25 have seasonal peaks. So a generator located in

1 the Seattle or Portland area needs to follow the
2 load. And as the load decreases as you
3 approach summer, it's going to want to be
4 economically viable and get to the markets in
5 the southwest. So that transmission becomes
6 problematic getting out of the load centers, in
7 addition to getting into. So we have not found
8 a perfect site.

9 MR. MOORE: It's worth noting,
10 at least in California, that there are
11 non-trivial problems involved in trying to take
12 that load near the demand centers. And I give
13 you one example, which is in the a major city
14 in California, where we recently had to use
15 unprecedented authority to override the local
16 government in order to site a plant. And as
17 there are more and more plants coming on, there
18 is more and more local opposition to siting
19 them. And that local opposition is getting more
20 and more sophisticated about shifting that off to
21 some other unstated region. And one of the
22 consequences of that is that the new siting of
23 plants is taking place where it's easiest, out
24 in the valleys and, of course, along the
25 existing pipelines.

1 So in the sense of trying to
2 plan ahead, and I guess I could segway onto a
3 point that Bob raised earlier, and I'll gently
4 disagree with him about the market failure, I
5 don't think it was market failure at all, I
6 think it was regulatory failure. I think we,
7 the regulators, at least in California, failed to
8 anticipate what the structure that was needed to
9 supply slack capacity in each one of the
10 categories, just missing, failed to plan ahead.
11 And we failed to integrate the local planning
12 function with our own regulatory oversight. And
13 the result has been absolutely catastrophic.

14 We've got to integrate that
15 local characteristic or we will simply start
16 planning further and further away because it's
17 always the line of least resistance.

18 MR. HOWARD: I was going to
19 add, if I could, we don't have time to spend a
20 lot of time on creating new structures. And I
21 think the Governor mentioned that. I just want
22 to stress that point. And I appreciate your,
23 Michael. I think we all need to recognize that
24 time is of the essence to get infrastructure in
25 place, whether it's a demand phenomenon or

1 there's some review of that or not, and use the
2 existing structures that we have to be decisive.
3 We can't afford to wait on siting power plants.

4 An example of where it's
5 working, I just want to say, there has been
6 almost a BCF-and-a-half of pipeline capacity
7 approved to bring on-line by next year to put
8 in place to provide service to power plants.

9 And so we've got to have some kind of
10 structure, whether it's coordinating with local
11 agencies or coordination with the federal
12 governments, coordination with the state,
13 everybody has a role. But we need to work
14 within those existing structures, because we
15 don't have time to sit there and create a new
16 structure to make all this work, and then start
17 planning. We've got to do it now.

18 MR. ANDERSON: It takes a long
19 time to build a new transmission, to plan it,
20 to finance it, to approve it and to build it.
21 It takes years and sometimes forever to build.

22 MR. MILES: You're talking about
23 other fixes?

24 MR. ANDERSON: How can we get
25 more out of the transmission system we've got?

1 If you look at the load duration curves, roughly
2 400 hours out of the year, five percent of the
3 time, 25 percent of the system is used. 75
4 percent of the time, the existing system is
5 fine, except for those 400 hours. So there's
6 an enormous expense for both generation and
7 transmission during those few hours.

8 Furthermore, if you look at the
9 actual loading on peak, you find on peak all
10 the transmission capacity is spoken for, it's
11 taken, you can't get on. But if you look at
12 the real loading, it's considerably below
13 capacity. So that's a market failure. So in
14 the meantime, you're right about the
15 transmission; we've got to get more out of the
16 infrastructure we've got.

17 MR. WILLIAMS: We need to keep
18 up with the transmission projects in the market.
19 For example, there is one in the Southwest that
20 could provide energy into the Phoenix and into
21 the Nevada area. They have 87 percent of the
22 right-of-way already procured, if the project has
23 been approved. If you want to get low cost
24 resources from northern New Mexico, there's a lot
25 of low cost coal sitting there, and get it into

1 the other areas. Otherwise, all of this
2 transmission is going to basically serve
3 gas-based generation.

4 The fundamental question you've
5 got to ask is, Do we want a western electric
6 system that rides the gas market 8,750 hours a
7 year? That is the fundamental question you have
8 to ask, because all the new generation, all the
9 market generation, is gas. All the base load
10 is fully equalized already.

11 And to answer that, you have to
12 say, Can you guarantee gas will stabilize? We
13 can't.

14 MS. SHOWALTER: Thank you,
15 Chairman Wood, for letting me keep Governor
16 Locke's seat warm here. I'm not on the panel,
17 and I know Governor Locke. I'm Marilyn
18 Showalter, Chair of the Washington State
19 Commission. I wanted to pick up where Bob
20 Anderson left off, the role of demand reduction,
21 and particularly the role of the state, and it's
22 coordination with FERC.

23 To put this in perspective, as
24 you heard Governor Locke say, the Northwest is
25 building or in the process of permitting 7,600

1 MW of supply; and that's a good thing. But at
2 the same time, demand was reduced 4,000 hours MW
3 in a much shorter period of time, six months.
4 Now, 2,500 of that is essentially aluminum
5 plants. But 1,500 MW is average consumers.
6 This is a very effective substitute for both
7 supply and transmission. That's the point.

8 If we can shave peaks, we don't
9 need as much supply, we don't need as much
10 transmission, and it saves a lot of money. I
11 want to make three points about this: The first
12 is that some demand reduction is essentially
13 free. People turn out their lights, they cut
14 their dishwashers at night, that kind of thing.

15 The second thing is that this
16 is a retail function ultimately, and that's why
17 the state should have a very strong role to
18 play. But we need to coordinate. That is, if
19 you can get the state commissions in a
20 coordinated effort of peak shaving, it is a
21 tradeoff with the transmission and supply that
22 you have a greater role in.

23 And the third point I want to
24 make is that this kind of demand reduction can
25 take place in either a deregulated retail state

1 or a regulated retail state. We're a regulated
2 retail state. We have one -- Puget has 1.3
3 million customers on SMART meters, 300,000 of
4 them are on time of use pricing. We were able
5 in the space of 30 or 60 days, our Commission,
6 to order eight different demand response
7 programs, whether it's irrigators for the
8 problems with irrigation, and getting paid for
9 it, or allowing utilities to post on the
10 internet payment for next day's prices, or our
11 time of use pricing. That kind of speed and
12 flexibility is a real value that the states can
13 produce. And I don't think FERC can do it.
14 With all respect, I don't think you have the
15 same jurisdictional authority.

16 But also, you are not connected
17 and as local as we are. So I would like to
18 put that on your to-do list of how to
19 coordinate state demand -- state level peak
20 shaving as a part of that picture of supply and
21 transmission plans.

22 MR. MILES: So what would have
23 us put up there is better coordination of peak
24 shaving --

25 MS. SHOWALTER: And shifting.

1 MR. MILES: -- and shifting.
2 Between state and federal governments?

3 MS. SHOWALTER: Really, I think
4 essentially it's a retail function that the
5 states are going to have to be the most active
6 in. But it's part and parcel of the other two
7 parts of the picture, which are supply and
8 transmission.

9 MR. ANDERSON: Load serving
10 energy, they buy in FERC's jurisdiction and they
11 under states' jurisdiction. We've got to link
12 those two things.

13 MR. O'HEARN: Bob has put a
14 point out on the table that deserves to get
15 aired a little bit more, and that's the idea of
16 that unused capacity that gets bid in or
17 reserved on the lines, and then stays vacant as
18 opposed to the actual load. What Marilyn is
19 talking about is a good short-term, or mid-term
20 reaction to how to make the system behave
21 better.

22 But in terms of long-term
23 capacity, talking about who is going to be the
24 sheriff, and I guess that gets to the RTO idea,
25 even though it's uncomfortable for some of our

1 colleagues. There's got to be some entity that
2 manages what that bid in but unused capacity
3 really is. Because if we don't get to the
4 point that Bob was raising, all we're going to
5 have is, to say it politely, a very
6 sophisticated form of gaming. A system that
7 will never really understand how to build in
8 that slack capacity, for the future how to plan
9 an intelligent expansion of the system. And
10 frankly, I think the RTO idea, whether it's
11 three or one or three merging into one, gives
12 us the capacity to designate who is going to be
13 the sheriff.

14 MR. MILES: Can I make a quick
15 observation. What I'd like to do also is focus
16 on what you mean by near term. Because I heard
17 you indicate as to what happens if the
18 infrastructure isn't met or isn't available, that
19 there might be price disruptions, reliability.
20 So in a sense, what do we mean by "near term"?
21 I think that's critical, too, as opposed to long
22 term.

23 MR. MAHER: I'd like to make a
24 point on that. While I'm in favor of demand
25 side management and reducing and trying to fully

1 utilize the transmission system and the generated
2 resources that are there, we have a fundamental
3 problem on our transmissions that we are
4 stability limited. We have utilized the existing
5 wires to the point where we have had to put on
6 other things, series capacitors, on our system,
7 which allows more power to flow through the
8 existing lines. When we've seen small
9 perturbation, a line go up between BC and
10 Alberta, we're seeing ringing in our system down
11 on the California border that's going on two to
12 three times longer than it should, which is an
13 indicator of instability that could tip our
14 system over.

15 So while we can do demand side
16 management, just existing operation, we need
17 reinforcements.

18 MR. ANDERSON: Well, Mark, I'm
19 here to help. I'm also here to offer some
20 ancillary services.

21 MR. HOWARD: I guess the one
22 thing that Jacob has been mentioning, and I want
23 to stress that, even though I'm a gas guy, it's
24 the fact there has been a ten-year sustained
25 growth in the economy, a ten-year sustained

1 growth in the economy which we have achieved
2 huge economic benefits, and that we are a bigger
3 base than we were ten years ago. And so the
4 conservation base that we're trying to achieve at
5 the margin is something that we need to do.
6 And I would argue and support that that is the
7 stage for all to keep the sustained programs
8 towards demand side management, which needs to be
9 sustained. It can't be a cyclical effort to
10 introduce and manage those programs and provide
11 incentives to do that.

12 I started my career 25 years
13 ago and it was a hot thing, and it's gone in
14 waves. But it needs to be put in the context
15 today that we have grown. And it's a good
16 thing that we've grown, it's good for the
17 economy. And we can't sacrifice businesses to
18 provide jobs, and the job creations that we've
19 had, to try to say we don't need the
20 infrastructure to be able to transmit peak
21 shaving around a western grid. Because if you
22 have that demand side resource, you still have
23 to be able to move it. And that's the business
24 I'm in.

25 MR. WILLIAMS: Transmission is a

1 very poor device to put in for peak shaving.
2 You put transmission in to move base load
3 energy. You don't put miles and miles of
4 transmission for peak or 500 miles away from
5 load. You put the peakers at the load. You
6 put the base load wherever the resources happen
7 to be and build transmission.

8 MR. HOWARD: I have a few
9 specific examples, and it ties into it. We
10 were talking about generation planning.
11 Washington State does have a new generation plan.
12 Unfortunately, I think, partly due to we don't
13 have it coordinated into regional efforts. And
14 I do think there is a need for that. There is
15 generation being planned long the BC/Washington
16 border. It's actually going to reduce liability
17 and reduce the net capacity available to the
18 entire western grid.

19 If you look at Washington State,
20 it may help Washington State; it will reduce the
21 capacity in California, though. A 500 MW plant
22 proposed north of Seattle between BC and
23 Washington will actually reduce the transmission
24 of Canada between 500 and 1,000 MW. So a new
25 500 MW plant, you get 1,000 MWs less from

1 Canada.

2 So it might help Washington
3 State to actually reduce their liability for the
4 entire western grid. And things like that need
5 t coordinated.

6 MR. PRESCOTT: I know a power
7 company this last summer, when we had put in an
8 irrigation buy-back program in response to the
9 marketplace. And even today, we're trying to
10 evaluate the impact that had on the economy in
11 the state of Idaho.

12 In my opening remarks, I
13 mentioned the wide use of electricity. And
14 that's what I stand by, the wide use of
15 electricity. But I also believe to remain
16 globally competitive, we can't put barriers in
17 the way. And I think by digging too deep on
18 the demand side, you may very well do that,
19 even inadvertently. So that's the only caution
20 I would have.

21 Also, I really support what
22 Jacob was saying about diversity. And that's
23 what transmission brings to the mix. But we
24 seem to be all hung up on gas, and you've seen
25 the numbers and how much gas and electricity

1 production is scheduled to come on. But there's
2 others as well; there's coal, there's wind. We
3 need to maintain our hydro infrastructure, no
4 doubt.

5 And further, and this was my
6 first point that I made, was one of certainty.
7 And that's one that I think needs to be up on
8 the list, clearly, because we need to have that
9 certainty for the investors that we're talking
10 about infrastructure.

11 MR. MILES: Can you explain
12 what you mean by certainty?

13 MR. PRESCOTT: Right. It's
14 regulatory and political certainty. If it's
15 market uncertainty, that can be managed. If I'm
16 an investor out there, would I invest in, let's
17 say the power plants, pick the location, well I
18 need to look at what is the certainty of
19 recovering my investment over a period of time.
20 And if there's regulatory impacts or political
21 impacts, I need to know what those are.

22 MR. MILES: If I can over the
23 next ten or fifteen minutes, turn your attention,
24 we've had a conversation where we've sort of
25 listed some of the things that need to be done

1 in the near term. If you put together a list,
2 which items need to be done first? Can you do
3 that?

4 MR. JESPERSEN: I think we need
5 to deal with the environment in which business
6 decisions need to be made. Let me see if I
7 can explain that in terms of coming at it from
8 the point of view of, why do we have price
9 volatility? Well, in business under today's
10 rules, the value of infrastructure investment
11 lies in the avoided cost. So how do you prove
12 something might happen that makes it economic to
13 avoid?

14 Immediately, as soon as you
15 build the capacity, whether it be power
16 generation or transmission capacity, what you've
17 done is destroy the value of holding that
18 capacity, because the price of that capacity in
19 the secondary market creates that market, has no
20 relationship to the cost. So in that
21 environment, what you need is extreme volatility
22 in prices until the marketplace gets comfortable
23 enough that there will be a sustained high price
24 environment to offset the risk for the periods
25 of time when you are in a high hydro

1 environment, if you're a generator, and have to
2 compete against BPA with a cost structure that
3 -- you know, an entitlement for BC Hydro --
4 with entitlement-type pricing to consumers that
5 links more to cost rather than to market. You
6 know you're off-line.

7 So if that's the environment,
8 how do you not have the kind of volatility we
9 have until such time as there's a means or a
10 mechanism in which to equitably share or move
11 the costs? The entire value chain, the cost of
12 holding a sufficient margin or reserve of
13 capacity to avoid the pain of --

14 MR. MILES: What I'd like to
15 do is start putting together a list that maybe
16 we could agree upon, can get a consensus on,
17 that identifies their term energy infrastructure
18 needs. How would you put that list together.

19 MR. MOORE: I'm not sure you
20 can get to the infrastructure without going to
21 the highest priority, which is the more
22 integrated planning functions. The point I was
23 raising earlier about trying to understand what
24 we're going to be able to satisfy in terms of
25 load in California, in part depends on what

1 happens in Arizona and upstream.

2 So until we get what I would
3 think of as a regional and integrated planning
4 function, we're not going to have the forecasting
5 that's going to tell the investor where they
6 ought to go. We're not going to have
7 information that's going to allow the regulator
8 to look ahead and imagine what ought to be
9 approved and in what time span. And I guess in
10 saying that, and in identifying that as my
11 highest priority, I would say that for me in
12 the short-term -- and this goes back to
13 Marilyn's point earlier -- that it is about two
14 years. And the long-term is about five years.
15 And after that, at least if I put on my old
16 hat as an econometrician, I'd say it's absolutely
17 unknown. I couldn't forecast with a reliable
18 function past five years to save my life.

19 So two years and five years is
20 the planning world that it seems to me has to
21 be integrated continuously in the regulatory
22 function. And I believe that will be one of
23 the strongest commitments that one of the three
24 RTOs will be able to provide in terms of
25 linking needs within the western region.

1 MR. WILLIAMS: Were it not for
2 the recession, we need to build things while
3 we're planning. We do not have the time to plan
4 and then decide which project. There are a few
5 projects which are ready to go. We need to lift
6 them up and move them down the road. While
7 we're putting planning in place, while we're
8 putting process in place. If we do not, we're
9 going to be five years there and we still
10 haven't gotten any more infrastructures left.

11 MR. MOORE: We do need to take
12 issue with that for a second. Right now we've
13 got several plants that are planned to go in in
14 certain places in California. At least a couple
15 of them are probably in the exact wrong place,
16 and are going to initiate a series of investment
17 decisions that will exacerbate the crisis that
18 we'll face further on.

19 So until somebody has the guts
20 to say it's time to call time-out and accept
21 some short-term perturbations in the system and
22 begin to get it right, we'll have a series of
23 decisions to make that will lead us and drag us
24 further down a path that's probably unstable and
25 insecure, at least in terms of finances.

1 MR. WILLIAMS: In the next few
2 years, we'll have the repeated energy crisis
3 while we're waiting for that process to run its
4 course.

5 MR. WOOD: There's a map on
6 page 26 of the little resource book that says,
7 "Portions of western interconnection biannual
8 transmission plan." I assume that's WSCC. To
9 address Dan, I think it's not going to help the
10 rest of this interconnect if 18,000 MWs that you
11 got up north of the border there can't get
12 through. So I notice that there weren't any
13 things on that map that increases the capacity
14 coming down from Canada.

15 MR. O'HEARN: I believe the
16 Western Governors Report will address that. As
17 you see the maps up here --

18 MR. WOOD: So the Governors
19 Report, which would be this report (indicating)?

20 MR. O'HEARN: Yes.

21 MR. WOOD: The one you talk
22 about is in here. Is the Navajo one --

23 MR. WILLIAMS: It is not in
24 the WSCC. It is one of the assumed lines. It
25 has to hustle to get there.

1 MR. WOOD: Does everyone agree
2 that this is the actual document we are all --
3 not all -- but I think most of you were
4 clamoring for when we were looking at the action
5 plan?

6 MR. WILLIAMS: Absolutely. And
7 the more aggressive expansion of the two.

8 MR. WOOD: This is Day 1. As
9 a going forth basis, is WSCC the right phrase
10 to do this, or can the same effort be split up
11 on three RTOs just as efficiently or -- this is
12 a good effort. And I guess if Marsha wants to
13 give it the rest of her life to keep doing it
14 this, I guess we can make her the --
15 (laughing).

16 MR. MOORE: That is the data
17 that we ought to go forward with. Whether we
18 break it into pieces, sub-pieces, but that's
19 still the umbrella that we ought to be going
20 forward with. That's the best design we've got
21 so far.

22 MR. WOOD: This is \$2 billion
23 more to invest than we talked about.

24 MR. ANDERSON: \$6 billion. And
25 if this is not going to be next year's stranded

1 cause, we need to be very careful about these
2 investments. We need to have not integrated
3 resource planning and principles, we need to have
4 integrated resource principles applied to cost
5 recovery and pricing.

6 MR. WOOD: Was your concept
7 about that bounds between resources factored into
8 this or not? Do you think this document
9 captures where the benefits of demand
10 contribution can take place?

11 MR. ANDERSON: I don't think
12 so. I think it's a supply-oriented proposal.

13 MR. MOORE: One thought. And
14 that is I appreciate very much what Bob said.
15 And I think in a better world, it is exactly
16 right. Almost none of those tools exist,
17 despite some of the notable efforts, for instance
18 here in Washington, where consumers have got some
19 of those demand tools. We don't have them in
20 California. And in fact if you look at the
21 practical application of those, the place where
22 they're going to make a difference is in the
23 larger commercial and industrial customers, not
24 at the residential level.

25 And as a consequence, if we

1 look at that and imagine that in a sense it's a
2 kind of sea anchor, it slows us down, we
3 recapture what we might have saved in the best
4 case, three to five years. And at that point,
5 we've got to have an intelligent expansion of
6 the supply system matched by a dispersion of the
7 right demand tools. We've got to start getting
8 out there. Right now they just don't exist in
9 some of our theoretical cases.

10 MR. WOOD: Wouldn't it be a
11 difference if the transmission response is less
12 than 10 percent of electrical? And the \$6
13 billion we're talking about [INAUDIBLE]. So it's
14 the market price savings that against the cost
15 that's important, not just the cost. And we
16 need to repeat that over and over again.

17 MR. WOOD: Let me get back to
18 my question. Because that's kind of why we're
19 out here, to figure out who is going to make
20 this decision, so we can go back to working on
21 Ohio's and other people's problems. I think
22 there were three yesterday, there were three
23 groups that were all talking about a lot of
24 things that were coming up with three different
25 answers. And the thing I'm worried about at

1 the end of the day is three different
2 transmission plans with three different analytical
3 models and tools that come up to our colleagues
4 at the states, to us, to the industry, and then
5 we're sitting here in 2004 going, Gosh, we can't
6 decide what to do. Who is going to decide what
7 to do?

8 MR. MAHER: Well, I took a
9 bite of the apple since I was on one of those
10 panels yesterday. But I think the RTOs can
11 take that on. And I think the seam structure
12 that we talked about facilitates that. If we're
13 truly looking at a west-wide market and
14 understanding how the interplay is going to be
15 between the three RTOs, it's going to force that
16 kind of planning. And I think it should be at
17 the RTO level. Keep WECC as the standard
18 setting, sort of separated level from what the
19 RTOs are trying to accomplish.

20 MR. WOOD: And why would that
21 be more efficient? Because I'm not as familiar
22 with the organization's personnel structure.

23 MR. MAHER: I think you can
24 take the argument that we understand our system
25 in the Northwest. And you're closing to the

1 ground in understanding the problems and the
2 solutions that will work there. And if you are
3 trying to meet the markets, as I mentioned, when
4 you build power plants in the Northwest, they've
5 got to get out of the Northwest. So you have
6 to make sure that that transmission is going to
7 be there.

8 I think there is another place
9 to make a decision. Are we going to have
10 diversified resources? Are you going to bring on
11 the coal resources that are in there? I'm not
12 sure that that's part of an RTO determination or
13 a WECC determination. I think it's more the
14 Governors and the states, if they want a
15 blueprint for more of a west-wide energy
16 development.

17 MR. WOOD: We did hear Governor
18 Hull mention that as one of the two questions
19 about transmission, how far do you go to use it
20 to broaden the market, i.e., mitigate local
21 market power in the load pocket? Then, how far
22 do you go to use transmission to increase
23 [INAUDIBLE]. Those are two great questions.

24 MR. MAHER: And as we get into
25 more demand site management and you take the

1 extreme example of shutting down the aluminum
2 plants here, the local transmission owners
3 understand that when we do that, you've just
4 shifted where your load is. And that's an
5 assumption that planners really have not had or
6 have thought about. So I think we're quicker
7 to react in the Northwest to understand that
8 that generation now used to serve Montana and
9 Spokane, needs to come over to the west side.
10 And so that transmission has to be robust enough
11 to do that. And again, I think you see that
12 more in a regional level.

13 MR. MOORE: Just to amplify
14 what Mark was saying. There's a tendency and a
15 danger, I think, in terms of the way the RTOs
16 of the past might have been organized, to look
17 at electricity as just one entity. And if you
18 look forward, you're going to see that the
19 markets, electricity and gas are almost
20 synonymous with one another. So planning for
21 both of those systems as one is more important
22 than ever.

23 So in a sense, will the RTOs
24 as the three entities were proposed yesterday,
25 are the right answer or not, or whether there's

1 a future integration of them. In terms of
2 tasks, they've got to be tasked with integrating
3 expansion of storage, gas storage, gas line
4 pipeline capacity, as well as the electric
5 system.

6 MR. WOOD: Until we get those
7 set up, I'm still surprised that the likeness of
8 that. Thank you, Jake. But notwithstanding
9 that, there's some interim period here. Are we
10 going to get some progress on these things
11 without the RTOs in the interim by just pushing
12 this report? Let me ask Dan from BC.

13 MR. O'HEARN: I hope so. It's
14 needed on the demand side. It's too simplistic
15 to look at [INAUDIBLE] And say that's a positive
16 thing for the region. Actually, taking out at
17 least one of those [INAUDIBLE] That's, again,
18 north of Seattle. So if you took a 450 MW
19 smelter out, you'd reduce it by 500 to 1,000
20 MWs. So maybe Washington State was helped by
21 that, but the grid was hurt, with the net
22 reduction in liability and capacity during peak
23 times available.

24 I think it was also probably a
25 similar issue out of Montana as well. So

1 that's why you need that coordinated effort.

2 You can't just look at one states or a couple
3 states' issues. You need coordination.

4 MR. WOOD: In the view of
5 footprint of RTO west as it's being talked
6 about, is that sufficiently large enough to
7 account for those type of related impact issues
8 that you're bringing up?

9 MR. O'HEARN: I think that
10 would be better that what we have now. You're
11 concerned about the country. I don't have an
12 opinion whether it should be one west-wide versus
13 three, as long as the same issues are addressed.

14 MR. MOORE: If you look at
15 just the impact that you're ordered to look at,
16 and the commitment to planning that was
17 accelerated as a result of the order, looking at
18 the RTOs, it seems to me that that's been a
19 significant step forward. And that short of
20 mandating something to come into creation, the
21 very act of asking the regions to show how
22 they're meeting different needs, how they are
23 coordinating things, the very act that that's
24 coming out of the Commission in such a focused
25 way, is causing a degree of planning to take

1 place that wasn't taking place, at least on the
2 time schedule that it has before.

3 Don't underestimate the power
4 that you've got, simply asking the right
5 questions.

6 MR. WOOD: I just don't want
7 you to have to vote on the mitigation order,
8 because we didn't do anything about what was in
9 this report. So planning is great. It looks
10 like a lot of it has been done out here, praise
11 the Lord. But when are we going to get a
12 bill, and when are we going to factor in the
13 things that Marilyn was talking about, like how
14 do you factor in the demand mechanism so that
15 that system is resource oriented? Is there a
16 Bonneville report anywhere, Bob, that we can kind
17 of latch onto?

18 MR. ANDERSON: We're writing it
19 at the moment.

20 MR. WOOD: Perfect.

21 MR. MAHER: Just to note. The
22 baseline for that report that you're referring
23 to, assumes that Bonneville has built these nine
24 projects. So Day 1 is like 2004.

25 MR. WOOD: Let me ask Mark.

1 Mark, if you don't get that budgeting authority
2 from Washington, can that be built out of a
3 transmission line company in your footprint?

4 MR. MAHER: Gee, I hate to
5 strand at this borrowing authority, because it's
6 a very political issue. But we do have a budget
7 that we have looked at and are reprioritizing.
8 And we can move ahead in building the most
9 critical projects now within our existing
10 borrowing. Our first three projects are already
11 in our existing budget. So we do have an
12 element of time for the politics to work out
13 through this.

14 Can a commercial activity come
15 in? In my observation across the country, I
16 haven't seen a commercial transmission line come
17 in. And I'm not saying it's impossible, but,
18 to put one in, I think you're going to have to
19 have it fairly well subscribed. The folks that
20 own it are going to want to control it so that
21 they can use it and get their return on
22 investment. And I'm not sure that we have the
23 structure to do that today.

24 I think we're looking at that
25 as one of the possibilities in an RTO structure.

1 But I just don't see that as feasible right now
2 in the Northwest. I could be wrong. Others
3 may have another --

4 MR. WOOD: Could you do it
5 outside of a merchant transmission program, where
6 you actually build it and then include it in
7 your rights, and that's paid for?

8 MR. MAHER: That's basically how
9 we do it. If we have borrowing authority, it's
10 our credit card. We're putting it on our credit
11 card, and then we need to either raise our
12 rates to achieve that revenue, or get new
13 sources on. And what we're looking at in our
14 infrastructure project is the amount of new
15 generation that wants to hook up and create
16 enough load that is a push, that we're paying
17 back our current debt.

18 MS. SHOWALTER: Just as a
19 footnote to this discussion, as long as the
20 writer is putting up priorities, my highest
21 priority on the priority list would be to get
22 Bonneville the authority it needs to do this
23 transmission. That is, it doesn't take an RTO,
24 it doesn't take long-range planning. Is it
25 already up there on that priority list? Okay.

1 It wasn't clear to me what's the highest of all
2 these things.

3 MR. MILES: Let's put a star
4 next to that.

5 UNIDENTIFIED SPEAKER: Thank you
6 very much. I didn't want the mis-impression to
7 be left that the Governors study did not address
8 alternatives to conventional transmission
9 expansion. And in fact, page 47 of the report,
10 that is the title of the section. And I guess
11 it's so important to me, is because the whole
12 reason I got the opportunity to be the co-chair
13 of the effort, was that I insisted at the
14 Governors May meeting that important public
15 policy considerations could not be ignored. And
16 that this task could not be left entirely to
17 transmission planning engineers, however
18 competent, and necessary they are, that that
19 wasn't the whole story.

20 And so we did have a group
21 that worked on these alternatives to conventional
22 transmission expansion.

23 The first statement is that
24 electricity resource planning should consider
25 various ways to meet end users' electricity

1 demands at the lowest total resource cost. And
2 it lists emerging transmission technologies,
3 energy efficiency, peak load management, and
4 distributed generation. And it gives examples
5 from the west.

6 Now, the most amazing thing
7 about this is it was done in 60 days; so it's
8 not complete. It doesn't have numbers. It may
9 not include everything Commissioner Anderson would
10 like. But I think it was an enormous effort on
11 the part of the people who put it together, and
12 we didn't ignore the demand side. It was very
13 important. It may not have -- Bob probably
14 wishes that it had the 40 pages and the
15 transmission upgrades have the six pages. But it
16 just turned out this way, Bob.

17 But I'd like to pursue that
18 further, because I've heard a couple of things,
19 and frankly they cause me some concern. I
20 heard Bob say, as he has said eloquently and
21 with which I agree, that we are not spending
22 the time and energy that we need to spend on
23 demand side management. I heard Marilyn say, as
24 I have heard some of our colleagues say, It's a
25 state issue, say out of it, FERC. I've heard

1 others say we really need to incorporate this
2 into an RTO function. But we don't yet have
3 RTOs. And Mark, I echo Pat's comment. That's a
4 long time that you have estimated.

5 But, what I'd like to do is
6 hear from the State Commissioners about exactly
7 what it is that we can do to work together so
8 we're not having the debate over whose
9 jurisdiction it is as we're making some very
10 important investment decisions. And maybe, Bob,
11 we could ask your committee, actually, to work
12 the with the states and come up with some
13 recommendation, and we'll put it on the agenda
14 of the regional panels.

15 But rather than have debate
16 about who does it, could we have the debate
17 about how we do it together? And maybe the
18 State Commissioners have some comments.

19 MS. SHOWALTER: I was at a
20 conference last week and somebody put up a
21 cartoon that had FERC, with Chairman Woods
22 saying, We're going regulate all the way to the
23 toaster. And it showed the toaster popping up
24 the toast, and the toast was the PUCs.

25 But I'd like to think that

1 we're nicely browned and not half-baked.

2 I guess to me it's a matter of
3 coordination, not necessarily jurisdiction. It
4 seems clear to me that the states do have
5 jurisdiction at the toast level. It's somewhat
6 unclear, but maybe determined by the Supreme
7 Court whether FERC does or doesn't.

8 So my point really is only
9 that, because the main kinds of decisions on
10 transmission and supply on the one hand, or
11 whether to run your dishwasher at night on the
12 other, are at very different levels, that it's
13 more a matter of putting on the same
14 spreadsheet, if you will, the supply, the
15 transmission and demand reduction. Demand
16 reduction is going to be much more varied over
17 the states, different kinds of programs. I
18 think we're just beginning to tap into how much
19 demand response there is.

20 So rather than propose some kind
21 of structure, I don't really see it as a
22 structure. I see it as something that would
23 occur within NAERC or maybe within KREPSI, that
24 kind of thing. Or maybe within the Northwest
25 Regional Power Planning Council. Those are the

1 kinds of areas who can catalog what we're doing.

2 But the value of it is just enormous, because
3 you don't need very much peak shaving to get
4 quite a bit of value.

5 MR. ANDERSON: Can I just add,
6 thanks for the challenge of the question. And
7 we accept.

8 FERC has different kinds of
9 power. One of the powers, I believe, is the
10 power to convene. We're talking about an
11 interstate regional market here. Our
12 jurisdiction is intrastate. And there's a vacuum
13 here of institution. We're creating all kinds
14 of new ones and consolidating, but we probably
15 don't have the right regional structure to
16 accommodate what we all think we need to
17 accomplish. So perhaps there's a convening role
18 that FERC could employ to get us together so we
19 can talk about the notion of how to hold load
20 serving entities and how to give the right kind
21 of incentives, whether we're vertically integrated
22 or competitive. How we recognize that the load
23 serving entities are at the nexus between FERC
24 and state jurisdiction?

25 MS. SHOWALTER: And just in

1 response, I do appreciate the opportunity to work
2 together. And my thinking on this has kind of
3 evolved from seeing it as a jurisdictional issue.
4 And I don't see it that way anymore. It was
5 pointed out to me that in states that are
6 chosen to create retail access and go that
7 route, that sometimes they lose the ability to
8 employ these kinds of demand site attributes and
9 therefore should be in that capacity or helping
10 with it. So I see this very much as a joint
11 effort and as a regional effort. But I also,
12 of course, have the caution that having now been
13 through a year where we have to create, employ
14 and experience the costs of significant demand
15 reduction measures, that you need to be careful
16 that the coordination is adequate, so that the
17 regional-type measures do not conflict with or
18 undercut the local and state efforts that have
19 been put in place, because I think in some
20 proposals we heard last year, there was that
21 opportunity. So coordination is the key.

22 MR. WOOD: I think I've also
23 heard, though, that the local shouldn't undercut
24 the health of the region. And that's just how
25 voltage is in the systems like you have here in

1 the west. It just has a very different impact.

2 When you take a major load out, it's just -- I

3 cry hearing about that. I know that's a great

4 demand side reduction, you know, it's not --

5 MS. SHOWALTER: Yes. I was

6 not at all clear what you meant by this "help

7 Washington." I am citing that the time of use

8 pricing that the mass consumers or individual

9 consumers en masse responding to price signals,

10 that it's a very different thing than a large

11 plant suddenly finding itself not economic. I

12 do think at a minimum, the response of the

13 aluminum plants does demonstrate demand response.

14 But that's it. I'm not sure what you mean by

15 the "helping Washington." It didn't help

16 Washington. These other measures can help

17 Washington and the region, I think.

18 MR. O'HEARN: The deduction

19 [INAUDIBLE] In particular helps TBL and helps --

20 so they were able to keep that power, or at

21 least not have to go buy power on the market.

22 And I guess that benefits the region. But from

23 a reliability point of view, the capacity

24 available to the entire markets, that actually

25 reduced the capacity available during the peak

1 hours. So maybe the person that was primarily
2 without was probably California, because we know
3 that as the prices rose in California, that
4 affects the whole region, including Washington,
5 including TBL. [INAUDIBLE] Because there wasn't a
6 lot of time to look into that. As with maybe
7 the generating site that's happening right now,
8 that it had to be done really quickly. But
9 after finding out [INAUDIBLE] That those
10 inter-regional and international considerations
11 are looked at.

12 MR. MOORE: I want to just add
13 one thing and go on to the question that's on
14 the table. I think I'm basically taking off
15 what Bob was saying. And that is, to define
16 the sensible region, the workable region. And it
17 seems to me we've shown collectively that we can
18 respond when there is a time limit and produce
19 a product relatively rapidly. It seems to me
20 that if you charge the agenda, so to speak, put
21 a time limit on it and suggest that we come
22 back with a set of recommendations where we can
23 agree on it by some given time frame, say March
24 of next year, pick your own date, and that the
25 topic is defining a workable region, that you'll

1 get the responses that you want.

2 Time is of the essence. But
3 none of us want to find ourselves back in the
4 position where you had to act with the kind of
5 alacrity and with the kind of tools that you
6 did. That if you put a time limit on it and
7 you say to all of us, We want your concerted
8 efforts, we're going to convene a hearing or
9 we're going to convene a workshop in Washington,
10 give us your best response by that period of
11 time, and the topic is, What's the definable
12 region that works, that you'll get that.

13 MS. SHOWALTER: That was
14 Washington State, right, Mike?

15 MR. MOORE: I said regional.

16 MR. MAHER: Can I just talk
17 about the long timeline? Because I think that
18 there is a state-federal cooperation here, too.

19 If we make our submittal as
20 planned on March 1st, we think the reasonable
21 time frame for FERC to turn that around is
22 about 90 days. For us to get that back,
23 incorporate the kind of changes that we need and
24 get that out, we're probably looking at the IOUs
25 or investor run utilities taking this to the

1 State Commission starting in about July of this
2 year.

3 Now, we have anticipated one
4 year to go through the state review process.
5 We looked at our friends at Pacific, that has
6 to go through six separate states for review on
7 RTO development. That's the extreme case. So
8 if we allow a year there, then the investor-run
9 utilities under what the deal is, they can make
10 investments at that point, and understand that
11 they will probably be able to recoup that
12 investment that they're making.

13 So investments wouldn't start
14 until after the state reviews, is what I'm being
15 informed. So once the investment is allowed to
16 be made, then to seat a board, to hire a staff,
17 to purchase the computer equipment, which we
18 understand, when you get in the queue, it's
19 about a twelve-month, could be eighteen-month
20 time frame to get that equipment onboard, you're
21 of into the beginnings of 04, at this point.
22 Then, you need to bring systems up. And as we
23 order from California -- and no knock against
24 California, they had a deadline to meet -- we'd
25 like to have the time to bring those systems up

1 and ensure that they're running, and test them
2 and run parallel for probably six months before
3 we went live in an RTO. That's what takes us
4 into late 2004.

5 MR. MILES: Is this a good
6 time to adjourn? We do have to take lunch.
7 Then the other session will start in one hour
8 and fifteen minutes.

9 A transcript of the session is
10 being taken. So we'll try to get you that
11 information if you want a copy of the
12 transcript. And also, can I have the panel
13 members, the next session available, ten minutes
14 before we begin? Thank you.

15 (Lunch recess.)

16 Welcome back. We have our
17 second panel of distinguished speakers this
18 afternoon. And the topic of the second panel
19 is to identify factors inhibiting adequate energy
20 infrastructure and investment. As with the first
21 panel, each speaker will have up to five minutes
22 to make a statement. And I urge you to keep
23 it to no more than five minutes.

24 Some he the questions we would
25 like to have addressed is why is needed

1 infrastructure not being built? What barriers
2 have to be overcome? And what must state and
3 federal governments do to overcome these barriers
4 in. And so with that, I'm going to turn to the
5 first speaker, and I'll have each of them
6 introduce themselves and state what they do for
7 the particular organization they work for. And
8 we'll start with Jim. Mr. Souby?

9 MR. SOUBY: Thanks very much.
10 My name is James Souby, I'm Executive Director
11 of the Western Governors Association headquartered
12 in Denver, Colorado. I work for Governor Hull,
13 who is our Chair this year who is directly
14 supervising me. So I will be doing a pretty
15 good job for you folks. I also work for
16 Governor Locke who was here earlier, and sixteen
17 other State Governors and three Territory
18 Governors. So we have a very broad range.

19 So it's a large organization, a
20 diverse organization. But fourteen of our states
21 are part of the western interconnection. And
22 eleven of our states are completely served by
23 the western interconnection. So that's my
24 interest here today.

25 With respect to the questions,

1 let me start by clarifying a few things that
2 were said this morning. This won't take long.
3 I really appreciate, Mr. Chairman and
4 Commissioner Brownell, the fact that you were
5 waving our conceptual transmission plan report
6 around, and that it is was referred to by the
7 panelists this morning.

8 However, were I an investor, I
9 would not be relying on that report to invest
10 in the line running from -- the \$6 million line
11 or the \$1 billion line. I want to make sure
12 everybody understands that the Western Governors
13 conceptual transmission plan report was there to
14 define the set of issues and define a set of
15 questions for us to wrestle with, not to propose
16 specific transmission lines or any other specific
17 project. So it's really important to know that,
18 because it was referenced that certain lines are
19 in there. They were, but they were
20 representative. All the cost numbers were
21 representative cost numbers, and all the
22 conclusions of that report were designed to start
23 a planning process while we wait for other
24 organizations to step in and actually manage the
25 planning process.

1 Let me get to the questions
2 very briefly here. Why is needed infrastructure
3 not being developed? As near as we can tell
4 based on our analysis and based on the reports,
5 because investors have been unwilling to invest
6 in specific projects necessary or identified by
7 as necessary, to solve problems.

8 Why are they not investing? As
9 near as we can tell, it's a lack of certainty.
10 It's a lack of a sufficient rate of return or
11 some combination of those two, the interplay of
12 those two factors.

13 What barrier has to be overcome?
14 It seems to me, based on the analysis in the
15 report, that's the primary issue. It's to
16 convince investors that these needed enhancements
17 in our transmission infrastructure and in any
18 other energy structure project need to be
19 financed.

20 What must state and federal
21 governments do to overcome these barriers? Well,
22 I don't think the state and federal government
23 are going to be putting up the money,
24 necessarily.

25 It seems to me the most

1 important issue that has come to the attention
2 of the Governors -- and Governor Hull referenced
3 this in her remarks this morning -- is a lack
4 of sufficient or readily-available information.
5 Every time that the Governors have met, we've
6 met four times distinctly on this question of
7 our electricity problems and our energy crisis,
8 the Governors have posed a number of questions,
9 and we haven't been able to get answers from
10 our panelists.

11 In talking to a number of
12 representatives in the audience here and on this
13 panel, I've learned that in order for them to
14 come to understand certain infrastructure
15 questions, gas supply questions, they have to go
16 to consultancies and spend excessive amounts of
17 money to get specific studies accomplished in
18 order to make forecasts.

19 So it seems to me if our
20 marketplace is absent readily-available
21 information to both the producers and for the
22 consumers, we're not going to have the kind of
23 investment that we need. We're not going to be
24 able to identify and justify projects, or perhaps
25 we're going to end up having to create all of

1 that information in the project-specific planning
2 process which will delay and make the project
3 even more uncertain.

4 So I would submit that one of
5 the most important things that the state and
6 federal government can do is respond to the
7 Governors' request for a timely information
8 system that will help investors, regulators,
9 policymakers and others make appropriate
10 decisions. And that system needs to be robust,
11 readily available to all parties.

12 And I'll end my remarks with
13 that suggestion.

14 MR. MILES: Thank you. Before
15 we begin with the next speaker, I asked each
16 speaker also to have their microphone up near
17 their heart, and also don't use your hands.

18 If you can move it on your
19 tie, I think that would help. The more
20 movement you have with your hands, the more
21 disruption. Next speaker.

22 MS. USPENSKI: I'm Christine
23 Uspenski. I'm an electricity analyst for Schwab
24 Capital Markets, and I usually don't create so
25 much backfeed.

1 What I do for Schwab is I
2 follow for institutional investors how Washington
3 legislation, regulation, and enforcement policy
4 impacts publicly-traded markets, and I specialize
5 on the electricity markets. And I think I'm
6 going to skip right into some of the things
7 that I've identified over the last two years as
8 real problems that bore opportunities that we can
9 bring, where we're going as far as needs for
10 investment and getting the money to you.

11 There's no problem with
12 investors freeing up money to put money into
13 infrastructure investments. The problem is the
14 return that they want versus the return you're
15 offering are further apart than we'd like to
16 have them be. And one of these things I think
17 is contributing to that is that there seems to
18 be confusion between the investor and the rate
19 payer, and what each of those has as a role in
20 electric utility markets.

21 I also think there's a
22 disconnect between short-term political goals and
23 long-term capital requirements and a need to
24 finance long-life assets on a long-term basis.
25 We've got our little short-term agendas kind of

1 running afoul of the decision making that needs
2 to go for these longer-term agendas.

3 One of the things that I've
4 been frustrated with when I look at the
5 deregulation of the electric utility industry has
6 been the focus on rate cuts. I would draw your
7 attention to how the water industry has
8 approached their infrastructure needs, and in
9 many ways -- no disrespect any of you -- but
10 they're counting them almost a trillion-dollar,
11 hundreds of billions of dollars, at least in the
12 U.S. And when they look at engaging the
13 private sector, it's not to see how much can we
14 cut rates to water customers tomorrow; it's, we
15 have got an agenda which requires a huge amount
16 of investment. How are we going to get the
17 most bang for the buck? And I think it's
18 unfortunate that the electricity debate,
19 especially today, has become almost exclusively
20 reduced to, How big is my rate cut going to be,
21 versus how much more efficiently we can get a
22 level of investment into a system that needs it
23 at the most efficient rate?

24 The other thing that I think is
25 a really big problem for investors, and this

1 goes back to the uncertainty that we have in
2 the regulatory landscape, is the fact that it
3 doesn't seem possible to prove sufficiently to
4 those of you who are the advocates for the
5 consumer, that this will do no harm. Life
6 isn't about not doing any harm ever. We all
7 try to do the best that we can. And I think
8 that at times, I feel that there is nothing we
9 can do to make you all comfortable enough to
10 work with us. And I think that that's
11 something that is unfortunate, and I don't think
12 it was intended, but I think it's something that
13 needs to be worked on, is that there needs to
14 be a rebuilding of that trust between the
15 investors, between the industry, and between the
16 regulatory base. Because right now that distrust
17 is really holding up the progress. Because
18 there's a huge lack of faith right now.

19 And it's too bad. Because when
20 I was in college and I had a long distance
21 boyfriend, I used to pay \$300 phone bills
22 without batting an eyelash. Today, I can do
23 the same amount of talking for \$25. Why?
24 Because we broke up the telephone monopolies.
25 So let's not forget there is an end game that

1 we can all get to. And I don't think at the
2 beginning any of us envisioned that telecom rates
3 could go that low.

4 And I do know that, you know,
5 we're talking about industries that are
6 substantively different. But I think that in
7 some ways we have to step back with what we
8 deal with on a daily basis and see if we can
9 get our eyes back on the horizon.

10 MR. MILES: Thank you,
11 Christine. Walter?

12 MR. HIGGINS: I'm Walt Higgins.
13 I'm Chairman and CEO of Sierra Pacific Resources,
14 which is the holding company for Nevada Power,
15 Sierra Pacific Power. I just want to talk
16 today about why it's hard to get a transmission
17 line built.

18 We have a line called Alturas,
19 a 163-mile-long 345 kV line, runs from Alturas,
20 California, to Reno, Nevada. Two new substations
21 at a considerable expansion of our facilities;
22 but most importantly, an expansion of our import
23 capability. The line traverses three California
24 counties -- Modoc, Lassen and Storey, Washoe
25 County, Nevada, the shortest part of the line,

1 is in Nevada, and it's in the City of Reno.

2 It was completed in December of '98 at a cost
3 of \$155 million.

4 We received integrated resource
5 planning approval, which is a Nevada statute.

6 In November of 1993, following 89 days of
7 hearings, in the order, the Commission said, have
8 it in serve by December of '96. The estimated
9 cost was \$100 million to \$120 million. The
10 Bureau of Land Management, the U.S. Bureau of
11 Land Management, which I might add did an
12 absolutely superb job on this, and the California
13 Public Utility Commission -- and I'm taking
14 nothing away from them -- completed a joint
15 Environmental Impact Statement as to federal and
16 state agencies in November of '95.

17 In January and February of '96,
18 each intern CPUC and BLM, issued independent
19 agency decisions approving the project. Giving
20 the projected completion of the EIS document, the
21 in-service date mandated by the Public Service
22 Commission of Nevada, Sierra Pacific has taken
23 the initiative, buy long lead time material, to
24 order the stuff, get the contractors lined up in
25 the project and so forth. Had we received the

1 approvals as we should have, the final approvals,
2 we would have had the project in service on
3 schedule in December of '96. Unfortunately, we
4 didn't get that. Instead, two years of agency
5 wrangling over the siting and location of the
6 project began at that point, after the
7 environmental review process was done.

8 On February 12th, '96, three
9 days after the BLM, which was the lead federal
10 agency, had approved the project, one of the
11 forest service organizations in Nevada -- the
12 forest service, by the way, was a cooperating
13 federal agency, so they're supposed to work with
14 the BLM on this -- one of the forests in Nevada
15 issued a no-action decision, refusing to grant a
16 right-of-way for the eight miles of projects that
17 were to cross their lands.

18 The Forest Service decision
19 broke ranks with the lead federal agency and
20 claimed that the EIS did not consider enough
21 alternatives. This decision was a big surprise,
22 since the Forest Service office was a party to
23 the Memorandum of Understanding, and had been
24 participating in the EIS all the way along.

25 We pursued months and months of

1 appeals with senior management of the Forest
2 Service, all the way to Washington, DC, to no
3 avail. We appealed the record of decision to
4 the regional office in San Francisco. Ultimately,
5 we appealed to the Deputy Chief of the Forest
6 Service, who ordered their decision withdrawn and
7 re-issued stating, "I have found in the review
8 that the decision of that forest is not
9 supported by the facts in the record."

10 In parallel with that effort, we
11 pursued the remaining state and local permits for
12 the project and undertaking that was greatly
13 impaired by the Forest Service decision. The
14 decision of the Forest Service also held up
15 three miles of forest crossing in Northern
16 California. The California office refused to
17 issue their permit until the Nevada office was
18 happy.

19 In November '96, a local Nevada
20 regional planning agency sided with the local
21 Forest Service and denied the permits, in spite
22 of the fact the EIS was approved; in spite of
23 the fact that the City of Reno and Washoe
24 County, the only two government jurisdictions,
25 had already granted us permits.

1 We needed the line desperately.

2 We are a transmission-dependent utility. That

3 line has to be in service to meet load. And

4 we had no choice. We re-routed the last twelve

5 miles of the project at a very late date, took

6 it off Forest Service land in Nevada. That

7 forced us into a new local permitting process.

8 So we had to go back a second time and, of

9 course by then, it was a big public deal. We

10 had a big public flap over it. We had to get

11 all brand new permits. We finally got those in

12 May of '97. The reroute resolved all of the

13 Nevada issues, but the local office in Northern

14 California of the Forest Service, in spite of

15 telling us to the contrary, refused to issue a

16 permit for the project, citing the same reasons

17 that the Nevada office had cited. That required

18 us to devote an all-out effort for the rest of

19 '97 to get the outstanding issues that they had,

20 and to overcome their request for a supplemental

21 EIS. Ultimately, they approved the project in

22 January of '98, only after many, many thousands

23 of more documents were provided, many of which

24 were provided in the original EIS process, and

25 some of which had never been requested in the

1 EIS process.

2 Well, then we started the
3 project. We built it. It was constructed in
4 ten months. But as a result of that delay, it
5 cost \$35 million more than it should have.
6 And it was two years late coming on service.
7 The only way we made it through the summer of
8 '98 without that was by operating essentially at
9 the edge of possibly very close to widespread
10 outages, because we could not have taken the
11 outage of any big plant or other line.

12 I think in the interest of
13 time, I'll stop there.

14 MS. JOHANSEN: I'm Judi
15 Johansen, and I'm President and CEO of Pacificorp
16 and former administrator for Bonneville Power
17 Administration.

18 I don't have a speech to give,
19 but I actually want to react to some comments
20 that have been made so far, in the spirit of
21 trying to mix it up a little bit. And I think
22 the first one that can go on the board is
23 actually the point that Walt makes, and it is
24 something that you all can do as leaders on the
25 federal side. And that is, work with the White

1 House to encourage a very high and unprecedented
2 level of cooperation among federal agencies.
3 That, in and of itself, I think is a huge
4 issue.

5 And I have experience, having
6 been part of the federal family, I have
7 experience with how that works, and sometimes
8 doesn't work. And I think that could go on
9 your to-do list, and that could do a lot.

10 Harkening back to what Jim Souby
11 said about the financial dilemma, I have to say
12 that I do put that at the top of the list of
13 impediments. And I was sitting here with my
14 blood at a half simmer this morning because,
15 while I think that the discussion of
16 inter-jurisdictional -- well, excuse me -- about
17 who has jurisdiction, DSM is important, and we
18 need to address it. There is a fire that is
19 still burning right in front of us. And that
20 is the hangover of the energy crisis. We have
21 investor and utilities across the Western United
22 States who are on their knees, are practically
23 on their knees financially, and not due to
24 anybody's fault, but just by virtue of the fact
25 that the regulatory institutions that we have set

1 up aren't able to catch up with the spending
2 that we've gone through in energy crisis,
3 billions of dollars sit unrecovered on the books
4 of these companies. And yet many of us are the
5 very entities that are being looked to to make
6 these significant investments.

7 My company alone spent over a
8 billion dollars of excess power cost in the
9 period of November to September. I am in the
10 presence of almost all of my regulators, probably
11 the most heavily-regulated person in the room
12 here, and I don't want to commit any ex parte
13 contacts, but suffice it to say we're nowhere
14 near collecting even a fraction of that; not
15 even half of that is even anywhere near being
16 collected. And we're all working diligently in
17 many states to deal with it. But it's an
18 immediate issue that I think we have to
19 acknowledge. And that is, investors are nervous
20 and utilities are not as healthy as they used
21 to be on the West Coast.

22 Just look at the news clips
23 over the past month. Tucson Electric, PacifiCorp,
24 my company, Portland General Electric, Puget,
25 Vista, Sierra, we're all in the same situation.

1 Fortunately, maybe not as bad as it got in
2 California, but it's an immediate issue.

3 Let me also just highlight a
4 different issue that hasn't been brought up, but
5 certainly one that's very important for western
6 development of infrastructure in the western part
7 of the U.S., and that's clean air. Clean air
8 is certainly going to be -- probably not in
9 this session, but maybe in the next session --
10 a big issue at the federal level. And I think
11 that that is an issue where the Western
12 Governors have shown a lot of leadership, and we
13 need the administration, I hope, will support the
14 Western Governors in what they're doing on clean
15 air issues. But we need to work together to
16 make sure that the environmental agendas match up
17 with the infrastructure agendas, hydro licensing
18 reform being another very important issue. Yet
19 again, I think federal leadership is needed.

20 When we talk about transmission
21 incentives -- shifting gears quickly for my five
22 minutes. When we talk about transmission
23 incentives, I think there was some good
24 discussion on that earlier, and we've seen it in
25 the various RTO workshops. And I am a

1 shameless evangelist for RTOs for a number of
2 reasons I won't go into right now.

3 But there is a piece, I think,
4 where the federal and state regulators need to
5 work together. And that is if the FERC creates
6 incentives for construction of transmission, we
7 need to figure out a way to make sure that
8 passes through at the state level, since, as
9 Commissioner Anderson said earlier, load serving
10 utilities really are is the nexus of the federal
11 and state regulations. So I do think there's a
12 piece of work there that needs to be done to
13 make sure that incentives translate clear through
14 to the end of the financial chain.

15 And so those are my nominees
16 for further discussion. And I'll leave it at
17 that. Thank you.

18 MR. MARTIN: Good afternoon.
19 My name is Jim Martin. I am an attorney with
20 Environmental Defense. I have been with
21 Environmental Defense for a long time, most of
22 that in our Colorado office, where I spent a
23 lot of time dealing with some of the air, water
24 and wildlife impacts of energy resource
25 development. For the last year or so, I've

1 been sentenced to our Oakland office, where I've
2 been dealing with a small California energy
3 problem. But that sentence is almost up, so I'll
4 be returning to Colorado soon.

5 I think I was invited to
6 probably be the scary ghost at the Halloween
7 party, or at least the Devil's advocate. If I
8 may step aside for a second.

9 I know a fair amount, actually
10 more than a fair amount, about the environmental
11 natural resources impacts associated with energy
12 resource development. I'm by no means an expert
13 on regional transmission -- I could barely put
14 it out. So I'm going to focus mostly on the
15 environmental footprint of energy resource
16 development. And to the extent I feel capable, I
17 want to touch on the transmission.

18 But that having said, I guess
19 one of the premises with which I'm going to
20 take some issue is the notion that in fact
21 there are significant and undesirable impediments
22 to energy resource development in the west. Those
23 of us who have lived and worked in California
24 for the last year have seen a significant
25 investment in energy resource development that is

1 coming on-line in a very expedited way, and
2 where the Governor and the federal agencies have
3 been very successful in expediting that review,
4 and significantly short circuiting the review of
5 environmental impacts, a process that I think we
6 all probably had to put up with for the
7 short-term, given the nature of the problems
8 we're confronting in California.

9 But it highlighted, at least in
10 my own mind, the question of whether or not
11 there are significant or undesirable impediments
12 to energy resource development in the west.

13 The other issue in which I work
14 is I'm based in natural gas development. Again,
15 another situation where we would be hard pressed
16 to say that there are unnecessary, undesirable
17 and -- that there are unnecessary and undesirable
18 impediments in energy resource development. The
19 development we see, in fact, is the absence of
20 a means or a mechanism of looking concretely and
21 comprehensively in an integrated fashion at the
22 environmental and natural resources consequences
23 of energy resource development across the west.

24 And I think that as good as
25 this conference is -- and I want to thank the

1 Energy Regulatory Commission and all of you for
2 convening this, I think this has been one of
3 the best spec days I've spent in a long time --
4 I think there are a lot of stakeholders and a
5 lot of interests missing here. And I think
6 that one of the things we need to think about
7 is whether or not we have any agreement on
8 where we're going over the long-term. I know I
9 have my own idea of what the west's energy
10 long-term future ought to look like; it would be
11 a sustainable, least social cost, environmentally
12 responsible energy strategy. Energy plan might
13 be going a little bit far, but an energy
14 strategy. And I think that that would force us
15 to take into account, to begin grappling with
16 some of the issues that have only been touched
17 upon today, if addressed at all.

18 And one of them, an issue that
19 actually, we just mentioned, what are we going
20 to do about the the sweeping plumes that are
21 omitted for coal fire power plants and power
22 plants generally. There's a lot of interest
23 [INAUDIBLE], in the that set of issues
24 comprehensively at one time. That makes a lot
25 of sense. But what it assumes, at least in our

1 view is that it requires us to deal with, for
2 example, the question of carbon emissions and the
3 issue of climate change. Unless we deal with
4 that and until we deal with that, the energy
5 future for the west, and the energy future for
6 this country, is going to be uncertain; it
7 creates an enormous cloud. And unless we begin
8 dealing with that issue, it is going to be
9 difficult to plot a clear path toward a more
10 sustainable, environmentally responsible least
11 cost energy future for the west. We have to
12 deal with that issue and we have to integrate
13 it into the discussion of regional transmission
14 organizations, into the question of what kind of
15 generation resources we want in the future, and
16 where we want them, whether we want them at
17 load centers or based on stations in the middle
18 of Wyoming, and what the associated environmental
19 impacts of all those things are.

20 Similarly, I think we have to
21 spend a lot more time dealing with the untapped
22 potential, not only of efficiency, energy
23 efficiency, and with renewables, but with things
24 that Washington State is doing. For example,
25 real-time pricing, demand side management, ways

1 in which we can shave peak and maybe even avoid
2 not only investments in new generation, but also
3 investments in transmission. To the extent we
4 can place microturbines and clean distributor
5 generation and so on near load centers, and to
6 the extent we can shave peak by using real-time
7 pricing and things like that, we can avoid
8 significant investments and avoid significant
9 environmental issues that are very, very real to
10 the folks that are immediately affected by them.

11 Third and last, recognizing I
12 only have five minutes of fame today, I think
13 we really need to begin to deal with integrating
14 the resource and environmental impacts on the
15 upstream side of energy resource development. If
16 you're watching what's happening in Powder River
17 Basin, one of the significant natural gas plays
18 in the western United States, they're confronting
19 the very difficult question of how to balance
20 the need for natural gas production in the west
21 and in the country, the prospect of 50,000
22 wells, an enormous number of wells. And all of
23 the attendant natural resources and environmental
24 impacts, from air quality, to impacts, to
25 visibility, and air quality-related values,

1 fragmentation of habitat to the generation of
2 literally millions of gallons a day of water,
3 some of which is contaminated, some of which is
4 not, all of which poses a potential for watering
5 of aquifers.

6 All of these are issues that
7 are out there, and they have a significant
8 interaction inextricably, I think, with these
9 other issues of how we generate electricity and
10 how we move it around, where we move it around
11 to.

12 And I'm going to make a plea
13 today that the Energy Regulatory Commission, the
14 Federal Energy Regulatory Commission, has done a
15 superb job of convening these stakeholders. And
16 I'm going to make a plea to you think about
17 whether or not it's possible to obtain a broader
18 set of stakeholders where you can begin to deal
19 with these more comprehensive issues and to plot
20 out with the Western Governors Association, which
21 I think has done a marvelous job on some of
22 these air quality issues, and begin to try and
23 integrate all of these different issues to plot
24 for the western United States, an energy
25 strategy, energy future, that is sustainable that

1 minimizes our social costs, and which can build
2 some consensus where we can actually begin to
3 deal with some of what we think what we see is
4 as [INAUDIBLE].

5 MR. MILES: Okay. Thank you.

6 MR. FREEMAN: Good afternoon,
7 Chairman Wood, Commissioner Brownell, Governor
8 Hull. My name is Bryce Freeman; I'm the chief
9 economist on staff at the Wyoming Public Service
10 Commission. I appreciate the opportunity to
11 appear before you today.

12 My prepared comments are going
13 to focus primarily on the Commission's Regional
14 Transmission Initiative, which is set out in
15 Order 2000. As you know, Wyoming is recognized
16 its substantial low cost of clean burning powder
17 river basin coal, and our reserves of natural
18 gas.

19 It is also known for its wide
20 open spaces, abundant clean air, and low
21 population density. This dichotomy of resources
22 and lack of demand makes Wyoming unique among
23 the other western states in that respect.
24 However, we also share many common interests with
25 other western states, and chief among them for

1 our purposes today is that we are all intimately
2 connected with the western regional electric
3 transmission system, as well as the interstate
4 natural gas transmission system.

5 Governor Darringer is pleased
6 that the Commission has initiated these
7 discussions with the states, and he looks forward
8 to continuing the dialogue. We believe that the
9 agenda set out by the Commission for today's
10 meeting couldn't be more timely. It brings
11 together the right parties -- the federal
12 government, the states, and others -- which must
13 work together. It rightly sets a broad scope
14 for the discussions taking place today, and those
15 that will occur in the future.

16 We have heard presentations in
17 discussion this morning regarding the current
18 status of the energy infrastructure in the west,
19 and strategies for attracting capital to finance
20 enhancements in the future. This afternoon we
21 will discuss what needs to be done to enhance
22 the reliability and functionality of those
23 systems. We note that many of those needs and
24 potential options for meeting those needs,
25 particularly those related to the electric

1 transmission grid, have been identified previously
2 in the conceptual transmission plan, which has
3 been identified this morning and developed by the
4 Western Governors Association, and which I had
5 the distinct pleasure of working on.

6 To begin, we encourage the
7 Commission to draw on substantial regional
8 resources and forbear exerting its jurisdiction
9 over substantive regional matters which can more
10 efficiently be addressed by the regional
11 organizations.

12 We have made great progress in
13 the west toward implementing structural and
14 procedural changes which will aid the states
15 working together in siting, planning, financing
16 and constructing transmission upgrades in the
17 districts. For instance, many of us here today
18 have devoted a substantial amount of time earlier
19 this week to the development of the interstate
20 electric transmission siting protocol, which we
21 hope to have in place as soon as the middle of
22 next year. Such a protocol would rightly place
23 the responsibility for the siting of new
24 transmission facilities in the hands of those
25 most affected by those decisions, and those most

familiar with local and regional use and
management issues, state and local governments.

Imposing the responsibility of
siting interstate transmission facilities on the
Commission would be an unnecessary burden to the
Commission, and would deprive the state of an
opportunity to address state and local markets,
environmental, cultural and economic issues in
their siting decisions. The Commission should
defer to states working regionally when consensus
can be achieved on these important issues.

While it is relatively easy to
identify constraints and bottlenecks within
individual network distribution systems in
isolation, it is much more difficult in our view
to devise integrated solutions which consider
energy, demand and resource options in total. For
example, it would be neither prudent nor
efficient to implement substantial changes to the
rail transportation system without consideration
and understanding of the impacts that those
changes would have on energy markets and resource
decisions.

We believe energy infrastructure
decisions should be made in the context of the

1 integrated energy production and distribution
2 system, and with clear understanding of energy
3 demand. And further believe that to the extent
4 possible, policymakers and resource managers
5 should rely on market-based mechanisms in making
6 resource decisions. But we also recognize that
7 regulatory solutions may be required under some
8 circumstances, particularly as we make the
9 transition to new market paradigms.

10 To this end, the analysis that
11 has been completed thus far merely informs the
12 larger policy today. Competitive markets are well
13 suited to allocating capital and production
14 factors. However, they are considerably less
15 adept at addressing public policy considerations
16 such as national security interests and
17 environmental quality concerns. Ultimately, these
18 policies will remain the responsibility of state
19 and federal policymakers and legislators whose
20 objective should be to foster and facilitate
21 market mechanisms that support public policy
22 decisions.

23 For example, in fuel diversity
24 and electric generation is identified as a public
25 policy goal, then market mechanisms must be

1 established which provide investors with the
2 information necessary to make investment decisions
3 that are consistent with that policy goal.

4 Market structures and rules should not be
5 formulated exclusively or even primarily by
6 market participants. Rather, they should be part
7 of a larger regional and national energy policy
8 fabric that helps this market development and
9 advances public policy goals.

10 Notwithstanding the need for
11 clear policy direction on regional and national
12 interest issues, we believe that there are
13 immediate steps that can be taken by state and
14 federal regulators that will address short-term
15 resource needs, and at the same time be
16 consistent with long-term policy objectives. The
17 Commission's Orders 888 and 889 have sparked a
18 complete restructuring of the wholesale power
19 market, and the establishment of regional
20 transmission organizations promises to do the
21 same for interstate transmission systems.

22 But the process of establishing
23 RTOs, it appears to us, has stalled, at least
24 for the moment. This delay in commissioning
25 functioning RTOs which would ostensibly create

1 the vehicle for planning and constructing
2 transmission facilities and recovering capital
3 investments in those facilities, introduces risks
4 and uncertainties that, in our experience, are
5 simply too great for waiting capital to overcome.
6 Consequently, capital that would otherwise be
7 devoted to the western energy infrastructure is
8 being diverted to other markets and enterprises
9 where the risks are known and measurable and the
10 returns commensurate with that risk.

11 MR. MILES: We're past the five
12 minutes. Lindy?

13 MR. FUNKHOUSER: Good afternoon,
14 Chairman Wood, Commissioner Brownell, Governor
15 Hull. I'm with the Arizona Residential Utility
16 Consumer Office. I am a consumer advocate in
17 Arizona on the utility rate matters.

18 We belong to a national
19 organization, the National Association of State
20 Utilities Consumer Advocates. And the
21 electricity issues in the west have been
22 something that has gotten very high on our
23 priority list as we start representing consumers
24 in cases involving purchase gas adjustors,
25 basically affected by the California crisis in

1 the past eighteen months.

2 We had studied many things. We
3 have engaged consultants in the course of these
4 duties. And we find that there are a number of
5 things that we need to have in the west in
6 order to facilitate infrastructure. We know that
7 infrastructure needs to be built. Right now,
8 rate payers are suffering from some rate shock.
9 They really don't understand what is happening to
10 them.

11 I go to speak around the State
12 of Arizona to a number of groups. And what I
13 find is that they really do understand this
14 stuff. Once you talk to them, they understand
15 it fairly quickly. What I think sometimes is
16 missing is the ability for our reaching out to
17 the rate payers, the consumers and the voters,
18 and to engage them in understanding what we're
19 dealing with here, and what's at stake here.

20 Now, in Arizona and Nevada as
21 well, I know, we need to have gas facilities.
22 I think that was put up on the board, that
23 natural gas pipelines into Arizona are needed,
24 and probably some improvement in the structure of
25 that natural gas pipeline is needed, because

1 we're becoming more and more dependent upon
2 natural gas for our generators.

3 One of the other things we have
4 to take into consideration, and one of the
5 things that mitigates the gas but militates
6 against trying to say one size fits all, in
7 Arizona and Nevada, we have to deal with water
8 issues. And when these plants are sited in
9 certain places, may actually draw off of
10 groundwater. They may not be as easily
11 available to central Arizona projects, "tapwater"
12 is what we call them in Arizona. They use
13 quite a bit of that resource, and we have to be
14 careful about how we use that, what is the mix.
15 And there are a series of laws in Arizona with
16 respect to water management that have to be
17 taken into account as well. We have our own
18 local laws in trying to manage our water and
19 manage our natural resources. And these plans
20 have an impact on those. And we have to take
21 that into consideration.

22 The western consumer advocates
23 have been talking about these issues for some
24 time now, for about six months. And one of the
25 things that has given us in terms of what we

1 can see for the future, one of the things that
2 we have lacked until now, I believe, has been a
3 plan, a comprehensive plan, a business plan, to
4 actually get started in dealing with these issues
5 on a whole west-wide basis. And that's what we
6 think, that's what I would suggest, a conceptual
7 transmission plan is, it's the beginning of a
8 business plan.

9 And what excited me about the
10 earlier discussion today was that you were
11 talking about how do we implement that plan,
12 which is the revision to the business plan. I've
13 had business plans before, but in a public and
14 private context. You revise the business plan
15 as you go along. What you're asking is, how
16 can we actually get this moving forward? And
17 what I think that the conceptual plan presents
18 is something that the public itself can really
19 get around. They can understand how they impact
20 other parts of the west, what their interests
21 are in what happens in California. And I think
22 they need to see a stake in that outcome. They
23 need to see a stake in all of these outcomes.
24 And that's what a conceptual plan really does
25 accomplish. It puts it all in the context that

1 I think I could present to people, have them
2 understand what we're dealing with, and actually
3 make it -- market it as part of your business
4 plan. You've got to figure out how you're
5 going to market this.

6 In terms of the demand side
7 management aspects, my theory is that the public
8 will have a harder time agreeing to site
9 transmission, agreeing to site generation,
10 agreeing to give up things for other parts of
11 the area, of the region, if they do not believe
12 that what they're dealing with now, what they
13 have now, is as efficient as we can get it.
14 If we can convince them that what we have is
15 efficient, that they believe that notwithstanding
16 all the efficiencies we've built in -- Governor
17 Hull has done a lot in Arizona in terms of
18 managing that or getting that forward, and we
19 can build on that, I know, in our state. But
20 if they're convinced about the demand side
21 management, I think they will be willing to
22 accept enhancements or change of investments for
23 the system, knowing that that is something that
24 we all need; we all have a stake in the
25 outcome.

1 I have some ideas with respect
2 to how you can carry out the business plan. I
3 would think that the governors and the elected
4 representatives in various states are the ones
5 who really will be accountable to the rate
6 payers when they're hit with higher rates. They
7 are the ones who will be asked by their
8 constituency, how could this happen to us? And
9 they, I believe, are the appropriate ones and
10 have proven that they are the appropriate ones,
11 to actually carry this forward and bring this to
12 the public and explain to them why it's
13 important enough. And that the people that they
14 put in office who care about them, like the
15 rest of us, think this is a good idea.

16 MR. MILES: Thank you very
17 much. Paula?

18 MS. BURGESS: I'm Paula Burgess
19 with the Bureau of Land Management. And I'm
20 really glad I'm not with the Forest Service. I
21 will try to speak for the land managing
22 agencies, generally.

23 And basically, land management,
24 federal land management agencies, have two
25 primary roles as we try to support

1 infrastructure, energy infrastructure and
2 development. And those are first in the
3 rights-of-way utility corridor area where the
4 federal lands are often the recipient of a line
5 to get from the production to the markets. And
6 the second role we have, less common but still
7 we have thirty new preliminary applications just
8 this year, is in the actual production site at
9 or very near a production site. And so federal
10 lands and resources are used. And then, of
11 course, the corresponding permitting activities
12 and authorities that we provide in order to
13 facilitate those developments.

14 Since those are our roles, what
15 I see are basically three kinds of barriers.
16 And actually, I heard and would like to at the
17 end maybe reiterate a few more that I heard
18 here that I think are really important to
19 capture as well, but three kinds of barriers
20 that really apply to the federal land managing
21 agencies. The first of those is a very complex
22 federal permitting process. And it's not just a
23 federal permitting process, of course. As Walt
24 knows, it's a complex state and local permitting
25 process as well. And I've worked at all three

1 of those levels of government. And I can
2 assure you it's complex at each one.

3 The second is, from this
4 morning's discussion, I think I would call it a
5 need for more integrated planning. Initially I
6 call it better partnerships with industry and
7 with the public. But really, it's a broader,
8 we've got to know where we're going with the
9 vision.

10 And the third is a well-trained
11 staff that can produce, can review all of the
12 permits that we see, and in addition sufficient
13 staffs. I'm going to talk for 20 seconds about
14 each of those.

15 The first one, the permitting
16 process, I think you've heard horror stories, and
17 we can talk for a long time about the others.
18 Basically, the land managing agencies are
19 attempting to do what we can within our
20 processes; basic simple things, like accepting
21 faxed applications, allowing credit card payments,
22 those basic things we couldn't do until recently
23 and now we're bending the procedures and we're
24 making those things possible.

25 The broader issue that I would

1 really agree that I heard here earlier was at
2 the very highest level -- maybe it was Judy's
3 point -- at the very highest levels we really
4 need attention to getting the federal agencies to
5 coordinate together. It's not just the land
6 managing agencies, it's the land managing and
7 federal regulatory agencies that need to figure
8 out how to work together better and provide
9 greater flexibility while protecting the
10 environment.

11 And then the second one, the
12 integrated planning. I actually have a little
13 bit of a success story here, which I'm sure a
14 number of you are familiar with. In 1993, the
15 BLM participated in what was called then the
16 Western Utility Group Study, which resulted in
17 identifying utility corridors across Oregon and
18 Washington. And we took that seriously and we
19 actually implemented that report. And there's a
20 map there in the middle which shows the utility
21 corridors and how they could connect with British
22 Columbia, Idaho, California. And we put those
23 into our land use plans. So when a district, a
24 BLM district, does a land use plan, it
25 incorporates that information, and the NEPA is

1 done, the NEPA work is completed. And it just
2 saves tremendous hoops later, it saves a lot of
3 time. And I think that kind of approach --
4 again, that's a 1993 study -- updating that sort
5 of thing on a regular basis, because we update
6 our plans as we're required to on a regular
7 basis, can really save time. And I would
8 recommend going that way.

9 The other piece that I heard
10 here again earlier is data management. And this
11 is just right now a gleam in our eye. But
12 we're toying with a system where we could put
13 on a website all of the various GIS layers that
14 would help the industry figure out when and
15 where and what might work, our power data, as
16 well as hydrographic data, as well as land use
17 data, all of those different layers could be
18 available to the public. And at this point
19 they're not, because we haven't been able to
20 fund such a system. But with a partnership with
21 industry or government, could make that kind of
22 thing available.

23 Then lastly, the staff issue.
24 We're currently in Oregon and Washington
25 reviewing sixteen major FERC applications for

1 licensing or re-licensing. And these are big
2 deals. Some of them are 50-year permits that
3 were issued, or licenses that were issued, and
4 need to be redone. So these districts haven't
5 seen those ever. That the staff there is
6 seeing these for the first time as they roll in
7 the door, and we don't have a lot of expertise
8 there.

9 And the Forest Service has an
10 interesting approach to solving these problems.
11 It has created a regional team called the RHAT
12 (Regional Hydro-Assistance Team), which is a
13 roving team of experts that goes out to these
14 forests, it helps them to get up to speed, it
15 helps them understand how to approach these major
16 license or re-license efforts. BLM hasn't done
17 that yet. I think it's something we need to
18 look at as the numbers here are really on the
19 increase.

20 So then just one second about
21 the other points. I think I mentioned a couple
22 of them already. But government needs to
23 respond quickly in terms of providing the
24 information database. And I think that's
25 something we can do. The government needs to

1 work on rebuilding trust between the industry
2 and, in particular, the regulatory agencies. And
3 I think that's something that can be done and
4 is badly needed. We need better communication
5 and coordination among federal agencies, starting
6 at the top. Again, that's do-able.

7 And then the last one is that
8 we need strategies that strengthen the
9 infrastructure while, at the same time, with a
10 vision toward what is the least cost to the
11 environment. Are there strategies that are
12 better, worse? As we sort of create those
13 visions, which ones have the least adverse impact
14 on the environment? Thank you.

15 MR. KEESE: Thank you. I'm
16 Bill Keese, Chairman of the California Energy
17 Commission. And I'd like to thank you,
18 Chairman, and Commissioner Brownell, Governor
19 Hull, for inviting us, particularly for the
20 Commissioners who are coming west, and joining us
21 here.

22 Speaking for all the west, I
23 think we believe we can be part of the
24 solution. And that's what we'd like to do.
25 I'm going to focus on electricity, since my

1 colleague, Michael Moore, covered natural gas
2 this morning.

3 And the first infrastructure
4 issue I'll talk about is, Why is generation not
5 being built? I hope in the last couple days
6 we've demonstrated that probably isn't the right
7 question for generation. In California, we're on
8 the verge of approving 10,000 MW of construction.
9 We've got almost 3,000 currently operating, and
10 more this year, more next year. The total that
11 we have under consideration, as I've told you
12 before, is 38,000 MW. And in the west as a
13 whole, we have in one of the four phases
14 111,000 MW of new generation.

15 Now, I hark back to the term
16 "certainty." Because I think it was -- there was
17 a very uncertain period in the early '90s when
18 nobody was interested in moving forward. Now
19 that we see a deregulated generation side, the
20 interest is there, and that problem is being
21 solved. So I think, as all of the western
22 states have indicated, we're on our way in
23 generation.

24 I thought I was the last one
25 on this panel and I was very interested in

1 seeing that Bob Anderson, the last one on the
2 last panel, brought up demand response. I
3 really do think energy efficiency in demand
4 response have to be a part of this equation.
5 We learned it this year in California. We had
6 a goal when we knew we were facing the crisis
7 of putting 5,000 MW of generation on and getting
8 5,000 MW of demand response. We expedited
9 everything. We did everything possible to get
10 about 2,000 MW of generation. But we got
11 70,000 MW of demand response. We got the
12 public to reduce peak demand during the critical
13 summer periods by 10 percent, more than 10
14 percent. We got energy demand, energy use
15 itself, to go down by about 90 percent. So
16 demand response in the short term did work.
17 And I think in the long term, as we face peaks,
18 as we face years when we're not going to get
19 our hydro, when we get a heat storm. We did,
20 in our analysis, 31 heat storms in 40 years;
21 not very often, but they take our load up by
22 40,000 MW in California, about eight percent.
23 We have to have mechanisms in place to handle
24 that through demand response, because in a
25 competitive generation market, you're not going

1 to build a power plant to operate one or two
2 days a year.

3 I'd like to talk about structure
4 a little bit, because we have to talk about the
5 regulatory framework. And I've been participating
6 in the western interconnection activities. I did
7 not do the technical papers. I have difficulty,
8 as we ended four days of hearings, meetings
9 here, understanding all the technical aspects.

10 But I think in the western interconnection that
11 we've advanced enough in our structuring of a
12 western market, that we now anticipate that we
13 can get buy-in o this from all the states into
14 the west; that as important as that is, we can
15 get buy-in from the provinces of Canada, who are
16 integral to our process. And that we can go
17 forward working, perhaps cooperatively, with you
18 in that kind of a structure.

19 If we step back and start over
20 with a new structure that we have to start
21 creating separate and apart from that, where
22 there is not a state role, I believe there will
23 be political barriers at the state level, there
24 will be political barriers at the provincial
25 level, we know there are political activities

1 going on in Washington. And I think we'll slow
2 down the process. I hope what we heard
3 yesterday, that in the west we have a vision of
4 one market; and I think that's completely
5 consistent with your vision of one market in the
6 west.

7 Now, the question is: How do
8 we get there? Again, I think that we can be
9 part of the solution, and I'd be happy to, on
10 behalf of myself and the energy people in the
11 west, work with you on that goal. Thank you.

12 MR. ACKERMAN: My name is Gary
13 Ackerman. I'm Executive Director of Western Power
14 Trading Forum. I have some good news for
15 everybody. It's Friday afternoon, and I'm the
16 last speaker. Take heart.

17 The Western Power Trading Forum
18 is a trade association of over 30 different
19 producers and sellers of retail and wholesale
20 power throughout the region. Of course, much of
21 our time is spent putting out fires in
22 California. There haven't much of those lately,
23 have there? And we are also very active in
24 arguing the case of uniform rules for access to
25 the grid, and transacting electricity sales

1 throughout the region. So it's an important and
2 timely topic to discuss today with all these
3 different people here. And it's very
4 encouraging, of course, to see in this forum
5 that you put together here, both state and
6 federal interests on one level playing field.
7 This is the first time I've ever been on a
8 level playing field, and as a result I notice
9 that people [INAUDIBLE].

10 I want to bring up three points
11 today that relate to barriers to investment, both
12 in generation and transmission. The first I'm
13 going to call the field of dreams business
14 model. And the second would be regional price
15 mitigation, which is a topic that FERC is
16 already discussing quite intently. And third,
17 the question of ownership rights on new
18 transmission lines.

19 Now, the field of dreams
20 business model comes from that movie, where they
21 built a baseball diamond in the middle of Iowa
22 -- I almost said nowhere, there -- but they
23 built a baseball field and they came. And the
24 model that we are working under right now,
25 certainly in the west and maybe in other parts

1 of the nation as well as we build generations,
2 load will show up. And it's really not quite
3 working, because transmission is a vital part of
4 that whole thing and it's really not clear where
5 that all fits in. And we think what we really
6 should be moving towards is a more sweeping
7 goal, whereby we have coordination of
8 transmission and the needs of transmission, both
9 for enhancing the transactions of electricity
10 over the long lines that we have out here in
11 the west, through a regional organization like an
12 RTO. But more importantly, and this is where
13 the distinction comes in, load-serving entities
14 have to be the parties within each RTO that
15 have -- and this is the key word -- obligation
16 to provide the reliability services in order to
17 meet the loads that are their customers. So
18 load-serving entities have a very well-defined
19 definition in the way that I'm using it here.
20 It's very kin to how gas companies think about
21 their customers, and we need to do that as well
22 in electricity. And that the load-serving entity
23 would have the obligation for identifying what
24 are the resources they need, not just for
25 energy, but also for reserves. And if you do

1 that, you see, then you will have entities that
2 will have the responsibility for assuring
3 reliability for a plan that a regional
4 organization has set out.

5 And oftentimes -- I know some
6 people will find this kind of daunting -- but
7 oftentimes I compare our industry to the the
8 banking and finance industry, as discussed
9 before. And I find parallels that are very
10 interesting. If you think of a load-serving
11 entities as commercial banks, you start to unfold
12 a kind of model which says, you know, banking
13 is a competitive industry, profit making entity.
14 And yet it's very regulated; you just don't
15 think about it that way. And electricity,
16 something similar could be done as well. And
17 the load-serving entities would take on that
18 obligation.

19 Now, I'm not trying to -- it's
20 a very broad definition of load-serving entity.
21 It could be an investor utility, it could be a
22 municipal entity, it could be a federal entity,
23 it could be a competitive retail service
24 provider; any of those things can serve as
25 load-serving entities. But I think that would

1 then give us a sweep of regulation that would
2 encourage the type of coordination and
3 complementarity that we are currently seeking
4 between the federal government and the individual
5 states. Because one of the questions that I
6 have, that I hope people can discuss or at
7 least try to answer is, how does the Federal
8 Regulatory Energy Commission build a common or
9 uniform business model for all RTOs which they
10 seek to regulate, and at the same time
11 accommodate the different needs of all the
12 different states? And certainly in the west, we
13 have very different states with very different
14 opinions about how things could be done.

15 This field of dream business
16 model might help us get there. That's one.
17 Two, regional price mitigation. And I realize
18 this is a hot topic and there are many
19 politicians from the west who think that price
20 caps are a great way to tame the market. I'm
21 here to tell you today that that ain't so and
22 the load-serving -- people here who vote, in the
23 west, are going to be a little upset if we have
24 a very small probability event, which would be a
25 cold snap -- and Bill talked about heat storms.

1 In the Northwest, you've got to talk about cold
2 snaps. And cold snaps [INAUDIBLE], with those
3 price caps.

4 What we identify as a deterrent
5 to investment in generation is the existence of
6 price caps. And I just wanted to read a brief
7 sentence from testimony that was provided last
8 Monday at FERC at its technical conference
9 regarding price mitigation here in the west, by
10 Richard Taber. It's worth repeating here.

11 "Price caps," he said, "will
12 discourage new investment in peaking units" --
13 and that's, I hope, a term now that's familiar
14 to some people -- "units which operate very
15 rarely, but are needed when there's extreme
16 weather, either cold or hot peaking units,
17 because they will be prevented from revenue
18 recovery during the few hours in which they are
19 needed."

20 That's just the nature of the
21 beast called electricity. You have some
22 resources which are not operated very often that
23 are needed and are critical, and you will not
24 get the investment which becomes then a barrier.
25 If you have price limitations, we would prefer

1 there would be price circuit breakers.

2 And then, last comment and I'll
3 just end it there, is that it's still unclear,
4 and I do not believe that there will be any
5 investment in private ownership of transmission
6 until the ownership rights are cleared up. And
7 that's a role of course, for the federal
8 government to play in terms of identifying very
9 clearly what ownership rights investors have in
10 transmission lines. And that will bring us a
11 long way from where we are to where we need to
12 be.

13 MR. MILES: Thank you very
14 much. We have a little over 20 minutes left in
15 this panel presentation. And I heard three areas;
16 there may be more, of course. Walt, you
17 mentioned a story about some of the problems
18 you're managing. And Judi, you recommended that
19 there be this high-level effort at all the
20 federal agencies. And Paula, you talked about,
21 I think you agree with that, it needs to come
22 from the highest levels. And then, Lindy, you
23 talked about current event, about investment.
24 And Gary, you talked about the need for
25 investment. But Lindy, you said something about

1 the side management, I wasn't quite sure the
2 full extent of this. Some of the things that
3 were being done in Arizona that were being
4 positive and constructive. And I noticed that
5 Christine was not in agreement.

6 I just want to know, could we
7 just follow up on that briefly, Christine?

8 MS. USPENSKI: I'd be happy to
9 try. I think one of the things that's been
10 really awful with what happened with deregulation
11 is the fact that everyone has assumed that the
12 customer is an idiot. And they're not. And I
13 think that it's very difficult for them to be
14 in a position where somebody else is making the
15 decision whether or not there was just a retail
16 choice. Whether or not they're willing to pay
17 for the tradeoff for clean air; whether or not
18 they're willing to participate in the discussion.
19 And I think they've been sold short. I really
20 do.

21 I absolutely believe with Lindy,
22 that if you put the option to them they can
23 make an incredibly intelligent decision. I mean,
24 how many people in this room toyed with the
25 idea of day trading or opening their own

1 brokerage account, or believe that they can
2 manage their own retirement? What makes you
3 think that these people don't get it? They do.
4 And not only that, your same rate payers are
5 investors. Maybe they don't own the stocks in
6 different companies, but they own mutual funds.
7 They're a very, very intelligent group of people.
8 And I think in a lot of ways they've been
9 undersold. Because government doesn't trust them
10 with the information, whether it's at a federal
11 level, whether it's at the local level.

12 MR. MILES: Does anyone want to
13 comment also on that?

14 MR. SOUBY: Well, I want to
15 comment on that. I want to clarify at the
16 outset, that's kind of what I'm getting at, is
17 that we need to have a robust information system
18 that's easily available to market participants.
19 So I'd like that on the list, because I think
20 it's a systematic thing that we actually need to
21 focus on and develop.

22 I want to get to the high-level
23 coordination effort and commend the
24 Administration, because in fact they've begun
25 this. And I'm going to recommend that Paula

1 connect with those people, because Governor Hull,
2 and her executive assistant, manage the State of
3 Washington.

4 We had some meetings with
5 [INAUDIBLE], we met with the new Chair. They
6 have a task force assembled. They are focusing
7 precisely on these questions. But of course
8 they're inside the bell frame. So they don't
9 have these hands-on examples, the maps and
10 everything else. We've been encouraging them to
11 connect with, quote-unquote, "the real world out
12 here." And actually find out what's happening
13 so we can fix these problems.

14 So on the one hand I want to
15 commend the Administration for starting that
16 process. But secondly, they really need to be
17 linked to the good things that are going on in
18 the field, so that they can make concrete
19 suggestions in Congress.

20 MR. FUNKHOUSER: I would add to
21 that, I think some of what we've talked about
22 for the past few days would be of great
23 interest to the public, if they understood how
24 interdependent we are. Because I can tell you
25 right now, without that, we can see it in

1 Arizona, if we can talk about siting generation
2 plants, you can say, Well, you're just trying to
3 site this plant here so you can send power to
4 California. People don't understand that there's
5 a relationship that we want to encourage and
6 it's good for them. We just need to explain to
7 those that are outside of the, I guess the
8 emergency or the land use issues, that's
9 presented to them as land use issues.

10 MR. KEESE: Yes. I think that
11 in California, particularly, we had a complete
12 period of uncertainty in the early '90s until
13 finally, through actions of our Public Utilities
14 Commission and our legislature, we put something
15 in place. Now, it wasn't deregulation. We
16 deregulated the generation site probably at the
17 hands of the response site, and it didn't work.
18 But it did set a certainty in place that people
19 felt they could apply and build power plants.
20 We're still getting two and three applications a
21 month for new power plants.

22 MS. USPENSKI: From Cal-Pine?

23 MR. KEESE: Cal-Pine buys them
24 all up before it's over, after they're built.
25 But we are getting the applications. So I

1 think there was a certainty in that site that
2 did set people in place where they knew they
3 could invest. And I'm not sure it's there in
4 some of our other markets; the electric
5 transmission, natural gas transmission lines, the
6 infrastructure. We do have some additional
7 underground storage taking place in California.
8 The investors are putting their money into that.

9 MR. MILES: Judi, you mentioned,
10 I think your second point was that there is a
11 fire burning, sort of like an energy hangover,
12 and that regulatory agencies are unable to keep
13 up with immediate investments. And that's
14 something that needs to be changed and improved
15 upon?

16 MS. JOHANSEN: Well, at a
17 minimum, acknowledged. I think we all came
18 screaming into the energy crisis so quickly that
19 it caught everyone by surprise. I recall being
20 informed by many of you less than a year ago
21 where we were saying, What are we going to do?
22 And I think the utility industry stepped up. I
23 think that our company, for example, probably set
24 records in terms of working with commissions to
25 implement demand side management and to find

1 generation that was idle at customer sites. And
2 we incurred a lot of costs keeping the lights
3 on. We were worried about blackouts. We did
4 everything we could to do that.

5 And then we hit our regulators.

6 And I can say our company, we're in six states.
7 We hit our regulators with a plethora of filings
8 that, you know, now they are trying to deal
9 with. And the fact of the matter is, a lot of
10 money has been spent; not a lot of money has
11 been passed through yet to rate payers, and it's
12 not for lack of effort, I don't think, on
13 anybody's part. But patience is wearing thin.
14 And I just don't think that the regulatory
15 compact is working. So as a result of that,
16 these major institutions, I would submit
17 virtually every investor in utilities, save maybe
18 one or two in the western United States is
19 seriously financially harmed and cannot respond
20 to the next crisis, cannot respond as quickly
21 and with as much alacrity to the need to build
22 infrastructure.

23 So it's something -- it's sort
24 of like what we say in our company, it's the
25 news that's sitting on the table that we need

1 to talk about, acknowledge, and figure out how
2 to move on. And I say that with great
3 trepidation, because I'm sitting here with the
4 Chairs of all my Commissions looking up and
5 saying, We'll talk to you about that later.
6 But it is something that needs to be
7 acknowledged.

8 MR. ACKERMAN: Markets move
9 faster than any regulatory agency, both either
10 federal or state that I can think of. And to
11 the extent possible, the compact that we should
12 be working towards, the one that I hope I
13 alluded to that was fleshed out some more, is
14 one where you're allowing markets to make those
15 investments, which is exactly what you want to
16 do, because they can do it quickly. That's
17 one.

18 And two, that the people that
19 are most able to take the risk, do take the
20 risk. What I find so objectionable to what's
21 occurring in California is the state keeps on
22 moving in more and more into procurement of
23 electricity and building of power plants, which
24 are putting taxpayer money at risk. When my
25 members make an investment and they make a

1 mistake, and mistakes do occur, the investors are
2 the ones who take the risk and might lose.

3 So moving faster and the
4 appropriate disposition, I guess, of risk is the
5 two things that I'd like to see in having
6 markets build, markets develop. All you have to
7 do is give the right parties who have the
8 incentives the authority to go forward and say,
9 We -- you know, and that's what I was trying to
10 say earlier -- load-serving entities should be
11 the ones saying, We need demand side programs,
12 we need generation in these locations. That's
13 how you open the door.

14 MS. USPENSKI: One thing I
15 would say, you know, following on the speed of
16 the markets versus the speed of the regulatory
17 environment. I think that in some cases
18 regulators have a lot more opportunity than they
19 realize. I've said here for the last
20 day-and-a-half listening to how different you are
21 from the rest of the U.S., and one thing I
22 would say is, yeah, you're different. And in
23 the Northeast they had a fuel clause, and they
24 raised rates 40 percent in the Boston area and
25 nobody committed suicide; nobody got unelected.

1 And now that we're a year along, they've had a
2 27 percent rate reduction. And sure, it's not
3 quite as cheap, power isn't at quite as cheap
4 as it was before that natural gas spike, but
5 it's amortized over a period of time; the
6 companies have been able to finance it in the
7 capital markets. And the system is going
8 forward.

9 So I do think that there is an
10 opportunity for regulators to work with
11 companies, and not be left behind. It should not
12 be so adversarial. Because if you can set up
13 your contracts in a way that there is a fuel
14 clause for the one thing that none of you can
15 control, then everybody is protected, and you're
16 all in it together. And it's not a matter of
17 whose fault or who is in Houston or who has
18 done what. It's a matter of, We got caught
19 crosswise on natural gas last year, we all
20 suffered.

21 Now, in California everyone
22 suffered. But it's a matter of what can we all
23 do together that makes sense? And if an
24 immediate rate hike makes sense, then that's what
25 should be done. People saw their gas prices go

1 up in the Northeast, they saw power prices
2 decline with them. That's what a consumer wants
3 to see. A consumer doesn't necessarily have to
4 have absolute rate stability. But they've got
5 to see that their bill follows the trends of
6 the markets. And if gas goes up and if power
7 prices go up, that makes sense. And you don't
8 need a whole lot of real-time metering to figure
9 that. When gas prices come down and they start
10 to see a benefit in their bill, it almost
11 starts to make sense.

12 So I think that there's a lot
13 that -- I know you all are very different, and
14 I'm not telling you you aren't -- but don't get
15 so focused on your differences that you can't
16 take what's good from some of the other markets
17 and integrate it into what you're doing. I
18 think that would be something that would be a
19 huge service to yourselves and to your rate
20 payers.

21 MR. MILES: Thank you.

22 MR. KEESE: I was just going
23 to comment, echo this, and move to the natural
24 gas market, where the price was low, rigs
25 weren't drilling. The price started up not much

1 more than a year ago. A year-and-a-half ago
2 the price started up. The number of rigs
3 drilling for natural gas went from 380 to almost
4 1,100. There was gas. The price of gas came
5 down. On the price pass-through, in California
6 the price of natural gas was passed through all
7 winter. The price of electricity wasn't passed
8 through until June. People started consuming --
9 conserving in April and May. They started
10 conserving because they were getting a higher
11 natural gas bill, and they thought it was their
12 electricity bill.

13 So passing through price had a
14 tremendous impact in California in reducing
15 electricity demand.

16 MR. MILES: We have about ten
17 minutes left. Yes, Bryce.

18 MR. FREEMAN: I just wanted to
19 say with regard to prices, following -- for
20 retail consumers -- following, relatively, the
21 price of commodity, you wouldn't find a bigger
22 believer in than that than me. I think in
23 order to make intelligent decisions -- and I
24 think customers certainly are able to make
25 intelligent decisions about their consumption of

1 commodities -- but that's only one piece of the
2 energy puzzle. We've got a whole bunch of pipe
3 and line and energy plans that's spinning, that
4 needs to be priced on the basis of why
5 customers choose that as well. We really do
6 need to have some more sophisticated systems than
7 simply looking at the price patterns that traders
8 put up. That's not going to -- I think we
9 need a lot more information than we've got.

10 And I don't think that a lot of the information
11 that we need as policymakers, in order to put
12 options in front of customers, is going to be
13 available until we have a forum in which that
14 information can be gathered and assimilated in a
15 package that we can understand, and that we can
16 make customers understand.

17 I think that means that we need
18 to have market structures put in place before a
19 lot of this information is available. And
20 frankly, I'm very concerned that what I've heard
21 in the last couple of days is that we're not
22 even going to be attempting to get that kind of
23 information put together for three or four or
24 five years. I think we're going to need to
25 carve out some of the more critical aspects of

1 regional coordination that we need to be looking
2 at now in order to make things work out in the
3 long term, and address those now, even if it's
4 not in a comprehensive regional transmission
5 organization, you know, so we leave the
6 operational characteristics and the day-to-day
7 operations that they need to have software
8 systems set up to handle to solve later. But
9 we really need to be looking at the long-term
10 planning aspects of our resource decisions now in
11 a regional context.

12 MR. FUNKHOUSER: And I would be
13 very cautious about saying, well, [INAUDIBLE]
14 Because large industrial consumers here in
15 Washington State took some big hits and they
16 shut down some plants. And they were concerned
17 about the viability of these markets. They
18 didn't have confidence in the market. And the
19 average consumer, the question I ask is, if a
20 single mother has children going to daycare while
21 she works and she's worried about the daycare is
22 going to go up \$5 a week, I don't think you
23 can just trivialize that with, well, just pass
24 through the cost and everything is going to be
25 okay. I don't believe that for a moment.

1 And I think that if we don't
2 have confidence in the markets themselves, if
3 they don't seem to be working right, they
4 seem to be hurting people, it's kind of hard to
5 say, Well, let's kind of suck it up and we'll
6 be all right.

7 MR. ACKERMAN: It seems ironic
8 to say that large industrial users in the
9 Northwest, especially in the State of Washington,
10 they had no confidence in the market. They have
11 so much confidence that they shut down their
12 production and sold their electricity [INAUDIBLE].
13 So I think they had enormous confidence.

14 So if that's a lack of market
15 confidence, I want more of it.

16 MR. MAHER: And I can point to
17 the transcripts of testimony by [INAUDIBLE], they
18 were all sitting there and they were testifying
19 under oath in some documents I was looking at,
20 saying, We question the viability of the western
21 market. That can't be good for markets. That
22 can't be good for capital markets.

23 MR. ACKERMAN: I don't know
24 what a good market is. What's a good market?

25 MR. MILES: We have about five

1 minutes left. And the next panel will be by
2 state and federal officials. I thought I'd just
3 give a couple minutes. Is there anybody in the
4 audience that would like to make a comment?

5 When you make a comment, would
6 you please identify yourself and who you're with.

7 Sorry, can't hear you. Don't touch the mic.

8 MR. HENBERTHY: My name is
9 Larry Henberthy. I have long been in electric
10 power usage. And I invented a process for
11 electric melting of glass, which has been all
12 over the world now. It is melting 70,000 tons
13 of glass a day, and it is using 1,400 MW. So
14 I'm part of the problem.

15 Now, I want to also be part of
16 the solution as well. We have several problems.
17 And I'm going to offer two innovative ideas
18 here: One is that we have other things to do
19 with natural gas than to use it for generating
20 electricity. We get all the electricity we want
21 from coal and nuclear. And so natural gas
22 should be converted by a relatively new process,
23 in four or five years, to a liquid. It doesn't
24 mean to compress it. It means to convert,
25 chemically, to methanol and similar fuels, which

1 can be distributed through the gasoline
2 distribution system. So there's something where
3 we ought to change our focus, instead of
4 thinking of natural gas as being something that
5 then we can just burn freely. We need to be
6 independent of [INAUDIBLE].

7 Now, the other idea was that
8 Vice President Cheney said in a speech that we
9 need sixteen power plants a year for twenty
10 years. Where are you going to find that much
11 money? There isn't. There's only one entity
12 in the United States that has that much money
13 available, and that is the Social Security
14 Administration; \$120 billion a year is available
15 there. That's what Cheney wanted.

16 So we need to think of moving
17 ahead without all these restrictions of the price
18 benefit return on equity and so on. Social
19 Security would like to have the return on
20 equity, which is generally 15 percent. And that
21 would then make it possible to cut out Social
22 Security tax. Thank you.

23 MR. MILES: Thank you very
24 much. Commissioner Brownell, you had some
25 questions?

1 MS. BROWNELL: I do. I've
2 heard in the course of the last couple of days,
3 and actually in RTO, the need for certainty to
4 move forward -- before we take your time, before
5 we take your time. But I've heard consistently
6 we need to find a better way, a more efficient
7 way, to deal with issues more efficiently, more
8 expeditiously, balancing various stakeholder
9 concerns. And I, of course, like to hear that,
10 because I'm impatient. And if the markets can't
11 wait, I can't wait either.

12 I'd like perhaps each of the
13 panelists here, and then the State Commissioners,
14 to maybe give us some ideas about how we can
15 transform ourselves into a more flexible,
16 strategic focused organization that can respond
17 in a more timely way. The stories that we hear
18 about the cost of delay and of bureaucratic
19 inefficiencies are quite frightening, actually.
20 So maybe you just want to throw out some ideas,
21 if you wouldn't mind.

22 MR. SOUBY: That's not a
23 difficult question at all.

24 MS. BROWNELL: Only for FERC.

25 MR. SOUBY: Only for FERC, did

1 you say? No. I think that first of all, I
2 think some of the notions about markets, making
3 sure that consumers are able to respond to
4 markets -- and clearly that's an important aspect
5 -- that's a regulatory concern and everybody is
6 aware of that, and that's some kind of balancing
7 effort.

8 One thing I've noticed over the
9 past two years in struggling with these energy
10 questions, is that there actually is the need
11 for some kind of grid-wide planning. And the
12 easiest way for me to characterize it so that
13 I'm not scaring the market-oriented people here
14 on either end of the table, is to look at what
15 Paula said, and that is planning that is
16 practical and that actually will enhance the
17 ability of the investors and others to get
18 investments made and get investments approved.
19 And I don't think it's only in siting issues, I
20 think there are a lot of other areas where
21 planning across our grid can help us answer
22 questions like what is the premium we ought to
23 be willing to pay before we reduce market power.
24 Questions like that, that I don't think you're
25 going to necessarily address directly.

1 It seems to me that some kind
2 of planning activity needs to happen. We're
3 hung up on the organizational structure for that
4 planning. And my thinking is maybe it's the
5 WECC, I'm not convinced of that, because people
6 have different views, and I have to be cautious
7 about what I say here. But it seems to me
8 that organizations like that can do the necessary
9 planning, pave the way, for these markets to be
10 responsive and for investors to feel more
11 confident about making investments.

12 MS. USPENSKI: I think I'm
13 going to verge on the blasphemous, because I
14 think it's something that I think is very
15 important. State regulatory commissions need to
16 realize there's a difference between investors
17 and rate payers. An investor puts out hundreds
18 of millions of dollars in exchange for a return.
19 A rate payer gets electricity and pays a bill.
20 When you go to Wal-Mart, you do not become an
21 investor in Wal-Mart. You do not start
22 dictating how that works.

23 Because we don't want consumers
24 to be taken advantage of by a monopoly
25 situation, we have people like you to take care

1 of regulating rates and following that sort of
2 thing. But if we're facing a huge mountain of
3 investment that needs to be done, you to have
4 understand that, going forward, the investments
5 made and the returns that come from those,
6 belong to the people who lent you the money.
7 They don't necessarily belong to the rate payer.
8 And if the rate payer is getting a flat rate
9 for five, seven years at a time, even in slow,
10 negatively growing economy, that's still giving
11 them a rate cut equal to the rate of inflation
12 every year.

13 There's a difference between
14 investors and rate payers. And I think that,
15 particularly in California, that seemed to get
16 real muddled. Because I would listen to the
17 California Public Utilities Commission scream at
18 length about how Californians are paying for
19 power, when I happen to speak to the people who
20 are holding the debt that hasn't been paid on
21 it since January. While I'm talking to the
22 people who are holding the bonds that have been
23 defaulted by PG&E. There's a difference. Both
24 of those parties are very important stakeholders,
25 and you need them both. But they're very

1 different. And you need to work with both of
2 them to figure out what they do.

3 MR. HIGGINS: I think I would
4 add that the problems in transmission are not
5 necessarily solved within the jurisdiction where
6 the problem exists. A transmission solution may
7 be one or two states away from the location of
8 the problem, whether it's congestion or a need
9 for a new line, our institutions do not deal
10 well with trying to get at a problem solved two
11 states away, when all of the benefits seem to
12 be in the state where the problem exists.

13 We're lucky we were a California
14 jurisdictional utility, because in the Alturas
15 process before the CPUC, the Judge repeatedly
16 asked, You have to show some benefit to
17 California, or else I can't approve this line.
18 Well, we had 40,000 California customers, so
19 there was some tangential benefit. But what if
20 I hadn't had any California customers, and yet
21 the line had to go through California? We have
22 to find a way for these multi-jurisdictional
23 problems to be solved, because the electric
24 system doesn't understand that there are
25 political borders.

1 MS. JOHANSEN: Well, I guess
2 what I would say is, I too am impatient and
3 action-oriented. And as we have a lot of very
4 complex issues -- and I don't want to pretend
5 like we don't. So I guess my sense is, we
6 need to look to the institutions that exist
7 right now, be they informal networks, informal
8 consortiums, whatever they are, the WGA, RTO
9 west, whatever it is, and try to build on
10 what's there. I guess that's where I would
11 start. Let's not invent something new. We heard
12 that on an earlier panel; let's build on what
13 we have.

14 We're parochial in the west, and
15 I'm sure you're learning that as you're here.
16 So I would ask you to respect that, understand
17 that, and continue to hold these forums.

18 The other thing I say is, don't
19 wait for Congress to do something. If you
20 think there's an ideal solution but it requires
21 congressional action, move on. Let's find a
22 different approach. Let's find things that are
23 within your authorities, within the states'
24 authorities, or within the wherewithal of
25 industry to find these solutions. Because we

1 made it through the energy crisis, that's the
2 good news. We made it through by the goodwill
3 of a lot of people trying to work together and
4 setting aside their jurisdictional differences,
5 whatever they might be. And I think we need to
6 build on that experience and move on and not
7 try to create a grandiose scheme to overlay on
8 all of this. I think progress is there, and we
9 need to keep pushing that, push RTOs. I know I
10 say that at some peril here, but continue to
11 push the RTOs. I personally think it's the
12 right thing to do; I think it solves a lot of
13 the problems, monitoring, et cetera, et cetera.
14 So push the places where clearly it is in your
15 purview to push. And where it's not clear,
16 let's have these forums and let's agree to work
17 together on a solution that might fall between
18 the cracks of jurisdiction. That would be my
19 solicited advice.

20 MR. MARTIN: I'm not quite sure
21 how to answer your question, because it's
22 probably going more toward transmission. I'm
23 going to fall back on what I said at great
24 length five minutes earlier. That there are
25 significant externalities involved in all these

1 processes and there are people whose interests
2 are affected, whether we describe them as an
3 [INAUDIBLE] Interest, or people who are worried
4 about total [INAUDIBLE]. In San Diego basin or
5 wherever, the people whose interests are
6 affected, we have to find ways to solve these
7 problems and at the same time address those
8 concerns. Because to the extent we're trying to
9 expedite the construction of a power line
10 [INAUDIBLE] Where that at least to my [INAUDIBLE]
11 That creates significant new coal fire generation
12 in Wyoming, our concerns are going to be
13 stopping that transmission work. If you're
14 someone who lives in Southern California and
15 you're worried about transmission lines which
16 need electrical energy generated in New Mexico
17 [INAUDIBLE]. And that is an issue that has to
18 be addressed [INAUDIBLE], it has to be addressed.
19 We have to find some way of integrating all of
20 these things into a forum or a process.
21 Because otherwise, I'm not sure where expediting
22 the process [INAUDIBLE], appeals to me or to
23 someone who lives down the road from one of
24 these power plants or downwind from the power
25 plant.

1 MR. FREEMAN: Well, I guess my
2 advice, Commissioner, to that specific question
3 would be to hurry up and wait. You probably
4 heard that before. But I think that, as I said
5 before, if we're going to wait until possibly as
6 late as 2005 to evaluate some of the decisions
7 on investments that are being made today, I
8 think we're going to be sorely disappointed to
9 find out that some of the decisions that we've
10 made in the haste of getting past the situation
11 we're in, turn out not to be the best decision.
12 And I think for that reason, we need to start
13 addressing some of the critical issues that can
14 be addressed now.

15 Siting. I think the Western
16 Governors Association is developing a forum at
17 which siting can be addressed, and those
18 decisions can be made based upon good
19 information. They can be good decisions and
20 they'll be compatible with the long-term public
21 interest. A lot of the operational day-to-day
22 things that are going to have to be in place
23 for RTOs to actually operate transmission
24 systems, probably aren't going to be able to be
25 in place for awhile. But the things that we

1 can address now, we need to start addressing.

2 I get pretty uneasy when I
3 hear, like Chairman Keese said earlier, the
4 generation thing is being worked out. Well, I
5 think to say that the market saw an opportunity
6 to jump in and fix the generation problem, is
7 probably a little bit -- ducking the issue a
8 little bit. Because I don't think a lack of
9 capacity is the only problem we're facing right
10 now. I think we need to get a forum put
11 together where we can all sit down and look at
12 these things in the long term. But we can't
13 wait to get started looking at them for five
14 years.

15 MR. FUNKHOUSER: Commissioner, I
16 would start with the conceptual plan, and treat
17 it as a business plan. I would appoint or have
18 the Governors appoint an action team to actually
19 strategically start working on that plan; how
20 you're going to market it, how you're going to
21 carry it out. We all of recommendations for
22 how to do it.

23 And I would -- I've been
24 sitting in on a lot of state groups, and a lot
25 of other types of state -- some of them work

1 better than others. But frankly, if you want
2 to actually get something done, it's -- we've
3 studied enough right now, we'll need to study
4 more. But if you have something to work off of
5 in which you say, Hey, we've got something
6 concrete here -- Commissioner Smith and Jack
7 Davis sat down and in 60 days came up with
8 something that we think is very, very sensitive
9 and very well thought out. And I don't think
10 -- I think it is a mistake to forget about that
11 or to not work off of that.

12 And actually, it doesn't
13 necessarily involve people who are trying to push
14 their particular agenda. It's very difficult, and
15 people come to me a lot of times and they want
16 me to help them with their agenda, and push it
17 as my agenda. And it's hard to not be hostage
18 to some agenda in this endeavor. But I think
19 we're at the point right now where as long as
20 you can step back from your own interests, and
21 then say what's in the best public interests
22 here, given what we have already done
23 [INAUDIBLE], is directed toward least cost
24 planning and actually knows what's going on in
25 the west. And then to start pushing. And

1 you're going to find out some things. You may
2 even find out a framework of how you want to do
3 the RTO that may be quite different from what
4 you can see. But what you'd be doing, you're
5 actually dealing with things on the ground, and
6 people, and ways of getting it done that will
7 actually tell you, Hey, this is what's real;
8 that will separate the theoretical from the real.
9 And if anything, it will be an exercise for
10 study, in which you'll know more about what you
11 should do in the RTO process, so we don't have
12 this situation where we try to implement
13 something and try to see how it goes.

14 I don't think anybody is willing
15 to do that anymore.

16 MR. BURGESS: I would continue
17 to agree with Bob, Jim and Lindy. Really at
18 this point there's great nervousness about
19 setting up a new structure. So maybe the
20 approach here is to do something that a
21 collaborative, focused effort, charged by either
22 FERC or charged by the White House, maybe even
23 given to the WTA to handle, but a public
24 process that creates a vision. And then with
25 that vision, it would allow the federal agencies

1 to make that particular path easier, do the NEPA
2 work, those kinds of hurdles could be cleared.
3 And if it doesn't evolve just that way because
4 it turns out that that isn't the best way over
5 the long-term, then it doesn't have to go that
6 way. But at least we've made one route a path
7 of least resistance.

8 MR. KEESE: In answer to
9 Bryce's comment, I'm not -- the fact that
10 investors responded and built generation is not
11 the end of the solution. I believe we also
12 need, I'll call it, a transmission freeway to
13 let things move around and have flexibility in
14 that area. I believe that demand responsiveness
15 is acutely important. In California, as one of
16 our responses to this, in addition to generation,
17 we've put time-of-use meters on everybody over
18 200 kw. We put 23,000 time of use real-time
19 meters out there, so that we can move forward.
20 We spent \$35 million on that.

21 We got to do all these things.
22 And we definitely need planning. And we need
23 FERC. Because we started this whole thing in
24 the west here on the issue of reliability. And
25 the problem with reliability is, we can't do it

1 in the west without help from the federal
2 government, and maybe even federal legislation
3 that makes reliability mandatory.

4 So we're going to have to do
5 this together. We're not putting up roadblocks
6 here and saying, we're going to do it in the
7 west and FERC, stay away. We've got to do it
8 with you.

9 MR. ACKERMAN: Commissioner, I
10 think the FERC Commission is already well
11 underway of getting to the answer you seek,
12 although it might be the first step of many to
13 come for ears from now.

14 Obviously, it requires a
15 stronger role for an RTO. It requires a
16 cooperative -- or the cooperation of states who
17 find themselves regulating the load-serving
18 entities that are going to be buying power off
19 the grid to serve those consumers. We're just
20 starting that, you're doing that now. And I
21 believe that if the incentives are set up right
22 to get rid of a lot of the intrusion, the
23 delay, and the miscommunication that often comes
24 about when competing regulatory agencies are
25 involved in helping a private investor try to

1 get a project done. I think it speaks to that,
2 and I really think you're just taking the first
3 steps. And hopefully, you'll just be able to
4 take one step at a time in terms of unfolding
5 whatever plan it is you need to get developed.

6 But I think no one knows the
7 answer, that's for sure. Those who don't know
8 the questions say, let's study it. But let's
9 just all agree, you don't know the answer;
10 you're just going to take it one step at a
11 time. But I think the road you're on is the
12 right one.

13 MR. SOUBY: Reference has been
14 made to the transmission plan of the Western
15 Governors Association. I probably haven't done a
16 very good job of explaining it.

17 Our efforts did not end with
18 the conceptual transmission plan. The Governors
19 have directed us to take several additional steps
20 that they've defined, one of which is to develop
21 a financing options study that they expect to
22 have presented to them next February.

23 We have undertaken the
24 interstate siting protocol development process
25 that you've heard here. We've met with CDQ to

1 discuss integrating for the state and federal
2 siting and permitting processes, and expediting
3 them. And we've also signed a memorandum of
4 understanding with the federal government, CDQ,
5 EPA, Agriculture, Interior, and the U.S.
6 Department of Energy, that sets out a number of
7 steps that we're addressing to make this energy
8 system, of the supply side and demand, response
9 site and everything else, work more effectively.

10 So I don't want you to think
11 that the Governors produced this plan and then
12 just walked out of the room. They surely look
13 forward to some kind of a mechanism that will
14 relieve them of this planning process as soon as
15 possible, but they are going to continue to push
16 for solutions to these problems in cooperation
17 with FERC and the administration, until we have
18 a reliable effort in place to take over that.

19 (A brief recess was taken.)

20 MR. MILES: Okay. Shall we
21 begin the next panel, then?

22 The last session today will be
23 a discussion by federal and state officials.

24 Can you take your chairs,
25 please. We don't have much time left. And I'm

1 sure we want to hear what the folks have to
2 say. Who would like to begin.

3 This is a discussion among the
4 state and federal officials. I think some of
5 the questions are, What are the next steps do
6 you think ought to be taken?

7 Madame Chairman?

8 MS. SHOWALTER: I'll list up a
9 couple of points where I think the states could
10 improve things. Four points.

11 First, I think that FERC can
12 help by monitoring the western markets closely
13 and actively and acting when dysfunction occurs.
14 Arguably, the single most important thing that
15 FERC has done was the must offer requirement.
16 Because without a must offer requirement, there's
17 no reserve margin that could ensure that prices
18 will not spike, because withholding during key
19 periods can drive those prices up. So I think
20 your active monitoring the wholesale market is
21 the first thing.

22 Second, and this is to reiterate
23 some of the comments earlier, but I think you
24 can help with facility siting on federal lands;
25 that's some of those federal family issues.

1 Third, this hasn't been
2 mentioned. But you can help states participate
3 in the hydro-licensing process with funding.
4 This is not something I know a lot about, but
5 my understanding is that you may have available
6 funds. The states' participation is difficult
7 with the resources we have. So if there is
8 some opportunity there, I urge you to look into
9 it.

10 I have mentioned the BPA bonding
11 authority, I think that's really the top
12 priority.

13 And finally, I think at the
14 most general level on RTOs, to support the
15 development of RTOs that address the actual
16 Northwest issues that we have, and that are
17 consistent with the Northwest circumstances. And
18 I'm speaking primarily of our very distinctive
19 hydro system.

20 As far as the states are
21 concerned, I wanted to respond just a little
22 bit, but Commissioner Brownell is not here.

23 In the case of Vista, it was
24 66 days from the time they requested relief to
25 the time we granted a 25 percent relief. In

1 the case of Puget, it was 44 days. Now, in that
2 case, we denied relief, but on the grounds that
3 they had failed to provide sufficient evidence.
4 And we invited them back to provide more
5 evidence. And I think at least a quick
6 response that gives some direction is acting
7 speedily.

8 We had other emergency hearings
9 with our industrial customers. We had Saturday
10 hearings; we had midnight hearings. I mentioned
11 already that our buy-back programs, some of them
12 we implemented in 30 days. So I think it can
13 be done.

14 Now, when you get to proposals
15 that were fundamentally re-aligned, the risks of
16 shareholders and rate payers, those kinds of
17 deliberations are going to take more time. But
18 once they are addressed satisfactorily, it may be
19 that various other -- various kinds of
20 realignments that take into account the riskier
21 market we have, may obviate the need for future
22 emergency proceedings.

23 But I do want to emphasize
24 that, under at least our current, in Washington,
25 our current regulated system, the rate payers are

1 paying a return on the investment and of the
2 investment of the shareholders, and that is a
3 risk that the rate payers are taking on, which
4 is very important. And so there is risk there.
5 If we are going to realign those risks in any
6 way, you to have realign the risks and the
7 benefits to match up.

8 And I think that we clearly, in
9 our state anyway, are going to be facing those
10 kinds of issues in the next year. And we do
11 owe it to the investment community and our rate
12 payers and the public to address those
13 expeditiously. But also it has to be thorough.
14 And the same point for FERC. There is no way
15 to rush through extremely complex and fundamental
16 and far-reaching issues.

17 MR. CHAMBERLAIN: My name is
18 Bill Chamberlain. I'm with the California Energy
19 Commission. I've participated with WICS Steering
20 Committee which has developed the WECC proposal.

21 I wanted to say that I think
22 that Chairman Wood's comments, your skepticism,
23 perhaps, about whether three RTOs can work, have
24 been heard here. I think that it's been
25 understood in the west for some time that if

1 those RTOs do not adequately coordinate in the
2 various areas we talked about yesterday, the WECC
3 exists to have backstop authority, and you'll be
4 hearing from WECC if it doesn't work.

5 I think that states will
6 participate in the WECC and will continue to
7 bring that message that we need to develop
8 solutions at the scene. We've brought that
9 message through KREPSI for several years now.

10 And I think that's one of the roles that we'll
11 be playing, along with you.

12 MR. WOOD: Bill, let me follow
13 up on that. Do we collectively need to wait
14 until the timeline that Mark from BPA said for
15 implementation of RTO west at the earliest to
16 see if it doesn't work and then left it up to
17 WECC? Or is WECC going to fill in the gap
18 until the RTOs are set up? Or do we keep
19 Marsha on full employment here to make sure that
20 the conceptual plan is not just conceptual, but
21 is an implemented item? What do we do between
22 now and the time when we --

23 MR. CHAMBERLAIN: WECC, of
24 course, envisions, eventually, having three RTOs
25 that would be the regional entities. There are

1 unfortunately too many of them. There are, I
2 believe, 33 control areas. But there has been
3 significant amount of coordination among those
4 groups through the RTO west effort, through the
5 Desert Star effort, and, of course, California
6 ISO, which is much more operationally functional.

7 I think the structure that we've
8 set up in WECC is flexible enough that we can
9 work with those regional entities as they exist
10 today, and still get planning and expansion, and
11 pricing, congestion management advancement over
12 the next few years as we're developing the RTOs.

13 I think it's a tremendous thing that the RTOs,
14 I think, have started to realize that if we
15 don't get together and start doing this, you
16 will, or someone else will. And so they've
17 gotten together this steering committee group
18 that is actually trying to develop the
19 operational protocols for this.

20 And I guess I would also
21 comment that probably the most difficult issue is
22 congestion management. And I found that very
23 heartening to hear that the RTO west effort and
24 the California ISO effort seem to be coming
25 together. That gives me a lot of hope that

1 there will be a west-wide system that will work.

2 MR. WOOD: And I would agree

3 on that, I think from yesterday, [INAUDIBLE],

4 the seem issued [INAUDIBLE] Was probably that

5 one. It went well to the end of the scale.

6 It was definitely in place. So I hope it did

7 not take away from yesterday's discussion

8 [INAUDIBLE] A lot more comfortable if there be

9 three instead of two. But it seems were

10 getting some together in such a way that at the

11 wholesale level these markets would start to

12 rationalize. I do worry about the length of

13 time, though, it takes to get that in place.

14 That things like planning, and really planning

15 and then the related issue of how do you get

16 the plan paid for, kind of hang in the balance.

17 I know the Governors are taking the answer to

18 those issues up, aren't they, Marsha? The

19 question about how to pay for it?

20 MARSHA: In the financial

21 report.

22 MR. WOOD: That's on the front

23 burner?

24 MARSHA: Yes.

25 MR. WOOD: Okay. So that to

1 me sounds good. Again, we're here to help.
2 But I don't want to ever have to vote on
3 another mitigation deal because of infrastructure.

4 We'd like to see the problem
5 fixed. Marilyn's advice about market monitoring,
6 I think that's something we all need to do. I
7 thought that was a great panel at the end of
8 the day yesterday. That there is really a
9 structure in place to look after the operation
10 of all of this good infrastructure, old and new.
11 And that it would be a very broad look at how
12 it's working. So I think that one clearly was
13 going pretty well. Anyway.

14 UNIDENTIFIED SPEAKER: I want to
15 pursue the point about timing of the RTO. I
16 was pleased that Mark Maher walked through what
17 some of those issues were. However, in my
18 personal view, I don't think it will take a
19 year for the states to deal with this issue of,
20 particularly what will be presented is a transfer
21 of control rather than asset sale. If it's
22 merely a transfer of control of the assets, I
23 think that should be able to be done
24 expeditiously in all of the western states where
25 approval would be required. If there was an

1 asset sale, that's a more complex issue and
2 there would be other parties who have will a
3 rather strong interest in such issues. For
4 example, if there us gain on a sale, what
5 happens to that? That would not be present if
6 it was simply a matter of transfer of control.

7 So I think estimating a year
8 for state action is too long. So your
9 concerned about timing, at least that would be
10 somewhat compressed. That having been said, I
11 think it is accurate, these interconnection
12 transmission and rating systems are the single
13 most complex machines in the world. And what I
14 was struck with in the last couple of days as I
15 listened to the panels talking about RTOs, and
16 not getting into the merits of it, is the
17 enormous amount of intellectual capital that has
18 been committed. The one I'm most familiar with,
19 RTO west, to make this happen. It is not easy.
20 These are enormously complex problems. And what
21 I found is the almost warp speed process that
22 is going on here to make this happen. I site
23 just not recent history, but the experience in
24 California. Most of the west, the commissions and
25 planners in the west, looked on in awe as

1 California went about creating their ISO and
2 their power exchange under the pressures of their
3 legislation, and requiring that to be done
4 instantaneously.

5 And when it became -- the day
6 it went real, you know, the champagne corks were
7 popping all over, because incredibly, they were
8 making the system work. And that was a measure
9 of success, the fact that it worked, the
10 mechanical system. It took a long time before
11 people started asking the question, Yeah, but
12 what are the consumer benefits of this system,
13 that is, quote, working? I say that only to
14 say, if you push the system so hard and not
15 allow the time for the systems, the software,
16 the complexities of this to be done right, or
17 as is going on in other parts of the country,
18 then the California chaos will be just a warmup
19 for what's going to happen in getting these very
20 large and complex RTO systems up and running.

21 MR. HALLET: Roger Hallet, the
22 former Commissioner from Oregon, now the
23 Governor's energy advisor. And I want to
24 welcome you on behalf of Oregon. I don't think
25 we've had an opportunity today to do that. I'm

1 sorry my Governor couldn't be here. But I know
2 that if he were, in his own very eloquent way
3 he would say some of the things I want to say.
4 And that he would be consistent with what I'm
5 going to say.

6 Back when I joined KREPSI, and
7 I'm glad you had a chance to see them in action
8 yesterday, that was back in 1992. We started
9 talking about, our term then was regional
10 transmission associations, we started talking
11 about the need for regional transmission
12 associations. These acronyms are shed like a
13 snake sheds skin. It's been awhile since we've
14 got RTA in the vocabulary. And now we know the knew
15 one is WIO -- I'm having trouble keeping track.
16 But back then the reason for this was that we
17 needed to squeeze about another five percent of
18 economic efficiency out of the transmission
19 system. In other words, we were almost there,
20 but we needed to sell to our states and to our
21 consumers, as state regulators, that we needed to
22 go an extra step forward and get some of these
23 exchanges going.

24 Thanks to restructuring and
25 deregulation, [INAUDIBLE], some of my colleagues

1 -- maybe we need to get another 10 or 15
2 percent out of the system because we're probably
3 85 or 90 percent efficient rather than the 95
4 we are were eight years ago.

5 But I want to make a statement
6 about the fact that there are other values here.
7 And many of them have been referred to besides
8 economic efficiency, which is an argument against
9 trying to force this as a cookie cutter approach
10 and forget regional values and even subregional
11 values. I would say that there are three that
12 I want to talk about. One is the environment,
13 and there's been good reference to that today.
14 The other is what I would call environmental
15 justice or equity, which has to do about where
16 a generation and where transmission is located.
17 And the third is security and reliability. And
18 that has a lot to do with distributor
19 generation.

20 In the original Western Regional
21 Transmission Association filing, there is a
22 requirement to file a regional bi-annual
23 transmission plan. And that's been referred to.
24 And I also noted in your RTO order, you entered
25 as a requirement the need for some kind of

1 planning. I don't know if it's getting lost in
2 the shuffle or what it is, but I hear, and we
3 certainly have a reflection of an attempt to do
4 planning in the conceptual western transmission
5 plan.

6 But I think one thing FERC
7 could do is somehow reinforce this need and add
8 the dimensions that I want to refer to here.
9 It is not only a need for planning to capture
10 economic efficiencies in the old IRP, but it's a
11 need also to remind you in the west, and
12 particularly certainly in terms of my state's own
13 energy policy, to access remote clean resources,
14 be they hydroelectricity, geothermal or wind,
15 which occur not necessarily close to load, in
16 fact quite often a long way from load. And
17 here comes the sort of the conundrum or tradeoff
18 with the environmental justice thing, which is my
19 second point.

20 So we need a plan that
21 considers that values as resources because of the
22 market failure incorporating the environmental
23 externalities I think one of the earlier speakers
24 referred to. And that requires a planning
25 process that doesn't dictate like a central

1 planning process, but provides the information as
2 to exactly what the environmental value and
3 reduction value and the health values of
4 accessing those resources and transmission
5 planning would be.

6 The second point, environmental
7 justice. I have had, as the Governor's energy
8 advisor, I can't tell you how many approaches
9 from developers who want to build a power plant,
10 and has been attested to quite adequately, I
11 think, we're doing a good job of expediting
12 siting. I can't tell you how many citizens
13 groups have come in to me and given reasons why
14 the Governor should oppose that plant siting,
15 because it would interfere with their
16 neighborhood, lower their property values or
17 whatever. And this point, I think, is very
18 important, and is the reason why you have to
19 integrate generation and transmission plants.

20 As has been witnessed here, our
21 western system, different than the midwest and
22 the east, is voltage challenged. It's very
23 unstable; very long distances. The resources,
24 the generation resources, are a long way from
25 load. We bring hydro power from Canada down

1 all the way into the Mexican border, and even
2 below, probably, in the summer. And consequently
3 there is a very good argument in terms of
4 reducing that instability, of locating generators
5 close to load for reliability reasons.

6 And I hate to play this card
7 in this environment, because I think it's
8 overplay, but I think perhaps even for security
9 reasons, because our transmission grid is
10 terribly vulnerable to terrorist attacks. If the
11 generator -- those who are causing the impacts
12 are also having to deal with them, which is an
13 incentive to either serve or exercise
14 [INAUDIBLE]. From a justice point of view,
15 experience the thing that you're causing.

16 The third and final point I
17 want to make has to do with, again, the
18 reliability issue and the need -- and I think
19 you're pursuing that, as I noticed in your
20 filings, or your request for information on the
21 [INAUDIBLE] Generator interconnection, and I want
22 to say that I've worked with Allison Silverstein
23 [INAUDIBLE] It's very comforting to me. This
24 not only accesses environmentally denied resources
25 [INAUDIBLE], fuel cells if they can become

1 commercialized, but also adds that kind of extra
2 dimension of reliability.

3 So my plea to you is to help
4 us in the west, which Marsha's program certainly
5 has advanced, to bring about a transmission and
6 generation plan, a regional plan that takes into
7 consideration regional values that are not
8 necessarily economic, but are quantifiable. And
9 that means regional input. I don't think you
10 should do it. My personal preference is that
11 the WECC should do it. I could be persuaded
12 that the RTO [INAUDIBLE], but they don't seem to
13 be really jumping at the opportunity. And we've
14 got a great start for that, with the kind of
15 values that I'm talking about being incorporated
16 in that kind of process.

17 MS. SALISBURY: You haven't
18 heard from New Mexico yet. My name is Jennifer
19 Salisbury. I'm the cabinet secretary for energy
20 for the State of New Mexico. Thank you very
21 much for coming today. I want to make a couple
22 points that are slightly different than both
23 Governors Locke and Hull mentioned to this
24 morning.

25 But I think all of us are

1 unanimous in our views in these two areas. And
2 we know that both of you have a lot of
3 influence on the legislation that's winding its
4 way through the Congress. And that Chairman
5 Martin is looking to you to provide some advice
6 as is the President.

7 We are unanimous in our views
8 that we do not believe that giving the FERC
9 siting authority is necessary. I think the
10 examples that you've heard both yesterday and
11 today show if there's a problem, it's with the
12 federal agencies, it's not with the states. And
13 if there is, we applaud what the White House
14 has been doing as far as trying to coordinate
15 among the federal agencies to better deal with
16 siting on federal lands. But maybe what the
17 Congress ought to do is give the FERC that
18 backstop authority to make those final decisions
19 when federal agencies seem unable to do that, as
20 evidenced by the example that was given in the
21 earlier panel.

22 And the other point I wanted to
23 make has to do with the reliability piece of
24 the legislation. We all long have been
25 supporting giving states a role in reliability

1 and also some level of deference. That is
2 missing right now in the Senate bill. We,
3 instead of trying to just impose our own point
4 of view in the west, we have been trying to
5 work with the committees and develop an
6 alternative language that we hoped that you'll
7 take a look at and can get behind and support
8 and convince the President to support compromise
9 language.

10 These are two really big issues
11 out here, and all of us have agreed to,
12 Democrats and Republicans. And when you're
13 dealing in western states, that can be very
14 difficult to achieve that kind of consensus. So
15 I just wanted to impress that on you, because
16 we haven't talked about that today. Thank you.

17 MR. WOOD: I think I heard
18 from a number of folks. I think everybody is
19 kind of getting there on the stuff, they just
20 want to see it in writing.

21 I will just say from both of
22 us neither of those issues kind of popped out
23 of our head. There might be more solutions in
24 search of problems.

25 MS. SALISBURY: Well, the

1 problem is the it seems like train is leaving
2 the station and we're getting rolled. And so
3 we don't like that feeling out here. Thank
4 you.

5 UNIDENTIFIED SPEAKER: I guess I
6 just want to say one more time, what a pleasure
7 it is to have you here in the west here with
8 us and attending our meetings. Kevin worried
9 about me when I sat hear. He said, But you'll
10 be on the FERC side. And I said, No, I said,
11 what I hope this last couple days has been
12 about is that there is a FERC side and a state
13 side, but there is a western United States that
14 we all care about, and we're trying to serve,
15 and we're going to figure out how we can each
16 use the powers, the knowledge and the skills
17 that we have -- yes, and Canada. And Pat said
18 that, so he did get the point. And it was
19 unfortunate that the map does cut off, because
20 the Canadians are an essential part of our grid.

21 So that's why I'm hoping we
22 work together. The other thing I'd like to
23 correct, as Roger is saying, from Marsha's plan,
24 a lot of people worked really hard, a lot
25 harder than I did, on this plan. So it is the

1 WGA conceptual transmission proposal that was
2 worked on by a lot of people through those 60
3 days. And I wouldn't want to diminish their
4 efforts by taking credit for it.

5 In response to Commissioner
6 Brownell's earlier question, I did jot down some
7 things. And maybe my state colleagues won't
8 appreciate some of them, but they can beat up
9 on me later, fire me as chair of KREPSI.

10 And one is, let us work on
11 issues that are important to you. And the
12 example I thought of was a WGA study. The
13 Governor said, Here's an issue; it's important;
14 we need somebody to work on it. So we got a
15 group. The other thing is they needed the
16 transmission siting protocol. We need it.
17 Okay, let's sit down. Let's have a meeting on
18 it, let's have a straw man, let's get a working
19 group to revise it.

20 Think of us maybe as a tool, a
21 resource, to work on issues that are important
22 to you. Because of our expertise and our
23 positions, we have a lot of really good people
24 out here, and they would work hard on this.

25 Number two, hold more meetings

1 in the west, or at least somewhere west of DC.
2 And I recognize you have budget constraints, and
3 it is expensive to travel and hold meetings in
4 distant locations. But I'm thinking that the
5 most recent example that struck me was the
6 interconnection we're making an effort, which I
7 believe you're trying to structure in a way of
8 getting input in advance of issuing a formal --
9 that's how we do it at home, I think it's a
10 good process. But if you have the meetings one
11 day a week every week for six weeks in DC,
12 that's hard for us. We can't get there every
13 week for six weeks for a day, and so I don't
14 know if that's your plan or not. But just have
15 a little bit of sensitivity about -- I know you
16 know how long it takes to get here, since you
17 did. And it's the same distance going the
18 other way.

19 So I guess the other thing is,
20 sometimes I get confused about who in your
21 agency I should contact or talk to. So if we
22 had a way -- and I know Commissioner Brownell
23 sent a letter around. It's exciting to me you
24 can think about how some process I know I can
25 count on, some person I can go to to actually

1 work with you.

2 Today we talked a lot about
3 what we need to add in terms of infrastructure.
4 And Marilyn mentioned something, I'm going to say
5 again, and that is hydro re-licensing. It's
6 very important. And just add the fact that we
7 can't afford to lose what we've got. That's
8 very important to you. So in addition to what
9 we need to add, we need to think about how we
10 can best use what we've got now.

11 Finally, the west diverse, just
12 as I'm sure the east is diverse. States and
13 provinces have different resources, geography,
14 loads. We don't agree on everything. Some
15 things we can't agree on at all. But we have
16 a history of working together. We have kind of
17 semi-formal ways and groups of doing that. We
18 also have a history of implementing what FERC
19 thinks is important. And I look at RTAs. Who
20 implemented it when FERC said we wanted to have
21 regional transmission associations, who did it?
22 The west. We've got three of them. So now
23 you say you want RTOs. Okay, fine, we'll do
24 RTOs, three of them.

25 And in the meantime, we'll

1 collapse our RTAs into WSCC and have a regional
2 buy-in that can also do reliability and have
3 interconnection-wide planning and coordination.
4 So you wanted it, you got it. So we're willing
5 to work with you on that. So really, to work
6 with you, or not.

7 So I guess my message is,
8 somebody earlier today said, Well, I believe in
9 markets. Well, I don't believe in markets. I
10 don't believe in regulation. I think markets
11 and regulations are tools; they're like hammers
12 and screwdrivers. And for one job you need one
13 and for another you need another. And you just
14 have to figure out which one works the best for
15 the job you're trying to get done at that
16 particular time.

17 So I guess, think of us, too,
18 as part of your toolbox. And we're here; we're
19 hard workers, and we're ready to work with you.
20 Thanks.

21 UNIDENTIFIED SPEAKER: I know
22 you've already heard from me today, so I'll be
23 brief. I guess I would just want to, before we
24 leave today, commend the work that the Commission
25 has started on RTOs, beginning with its order in

1 December of 1999. I think the work that has
2 been initiated so far, and the re-dedication that
3 you all have indicated for the effort since
4 you've been onboard, is very important to those
5 of us working in the west to try to make things
6 work.

7 I guess I certainly wouldn't
8 want to be accused of suggesting that the
9 Commission take additional jurisdiction over
10 activities that have traditionally been under the
11 purview of state regulators in the past. We've
12 certainly tried to work hard to make sure that
13 we can accommodate what you'd like to see
14 without you actually having direct control over
15 those things. However, I would like to say,
16 and I think I speak for Chairman Steve
17 Ellenbecker of Land and Public Service
18 Commission, in his feelings that the FERC
19 certainly needs to take a strong leadership role
20 in making sure that this thing gets done, and
21 gets done in a timely manner, and produces the
22 results that we all hope for. We can't just
23 smear this on the bottom of a petrie dish and
24 hope that it grows. We've got to start a fire.
25 We've got to make sure -- we can't go into it

1 -- you know, and by taking a strong leadership
2 role, I don't mean that you make decisions and
3 predeterminations about the way that things
4 should work in the west. But that you make
5 sure that the processes are enabled and
6 facilitated for people to come together and know
7 what the expectations are, know what the issues
8 are, facilitate collaborative discussions of those
9 issues and make sure that we don't lose our
10 focus and get untracked in this whole process.

11 So I would urge the Commission
12 to take as strong a role as you can take and
13 rely on the considerable expertise and wisdom,
14 and collective spirit in the western United
15 States to accomplish what you expect to be
16 accomplished. But let us know what you expect
17 routinely.

18 UNIDENTIFIED SPEAKER:

19 Commissioners, I first of all would like to echo
20 Marsha Smith's hope that we will see more of
21 you out here in the west. And I do expect
22 that we'll probably be visiting you in
23 Washington, DC as well, frequently over the
24 coming period. I think this is -- what we've
25 heard from this panel this afternoon to me has

1 been very remarkable. There has scarcely been a
2 statement made by anyone on this panel that I
3 would myself disagree with. And to have that
4 level of unanimity, I think it says something.
5 It makes a statement in itself.

6 A question that was put forward
7 to us at the beginning was, What should the
8 roles of the states and the Commission be, and
9 how can we work together towards common purposes?

10 And I have a couple of thoughts about that.
11 First of all, you've heard from several speakers
12 already, really almost everyone who has spoken,
13 about our long history in the west of working
14 together. And it's a successful history; it's
15 one we have a track record. There's a lot of
16 empirical evidence that we can resolve problems
17 through regional cooperation, and it's not always
18 easy and perhaps it doesn't always happen exactly
19 on a timeline that everyone would prefer. But
20 the work product is good. We've had some very
21 good outcomes.

22 The significant breach in that
23 record that I can think of is when California
24 took off on its own to completely disrupt the
25 relationships that existed in the wholesale

1 energy markets in the west, with catastrophic
2 consequences, first of all, for California, but
3 as well for all of our neighbors. And I think
4 that I can say on behalf of all the officials
5 who represent the State of California, that we
6 have learned some lessons from that experience.
7 And I think that we have been demonstrating in
8 the last -- certainly at least the last year or
9 so, that we understand our mutual interdependence
10 upon our neighbors, and that we have renewed our
11 commitment to work things out in order to
12 resolve things in a way that is mutually
13 beneficial.

14 We know that no state in the
15 region is self-sufficient. Maybe Idaho is most
16 of the time -- no, not anymore. As soon as it
17 starts raining again.

18 But we are mutually
19 interdependent. And we're not self-sufficient.
20 We need each other. And we've long recognized
21 that, with the one significant break that I
22 mentioned. But I think that we're getting past
23 that. And we have -- we're very motivated.
24 This isn't just some intellectual commitment. We
25 have been burned very, very badly. And we need

1 to -- we have learned from that experience and
2 we'll continue to learn from it.

3 Which leads me to the conclusion
4 that, just like the first rule of medicine is,
5 First of all, do no harm. And I think that
6 before FERC makes any mandates on us, you should
7 make very sure that you have a good diagnosis
8 of precisely what the problem is that you're
9 addressing. And if there isn't a problem that
10 actually exists without any other alternate means
11 of resolution, then maybe you shouldn't act yet
12 until you've identified that particular problem.

13 And you've heard during the
14 session today, and Chairman Wood and Commissioner
15 Brownell, you heard some yesterday as well, about
16 the take of people in the west, about what the
17 actual problems are. And there isn't unanimity
18 certainly among stakeholders, not the level of
19 unanimity that exists among government officials.

20 The other thing that I would
21 say in conclusion is, I would come back to the
22 first statement that Chairman Showalter made,
23 which refers to what you can do and what we
24 need you to do. We need your protection. We
25 need you to assure -- because we lack in our

1 toolbox sufficient jurisdiction and sufficient
2 regulatory tools to protect ourselves from such
3 things as withholding in tight markets. And to
4 me, one of the very striking materials that was
5 prepared by your staff is a graph in the
6 resource book which shows price points for
7 electrical markets in different spots in the west
8 over the preceding year. And for those of you
9 who lived through this day-to-day watching over
10 what happened, when you look at the points of
11 those graphs, particularly to the markets that
12 serve California most directly, the parts of that
13 graph with the steepest slopes up and down
14 correspond precisely to FERC decisions, key FERC
15 decisions. One of them, of course, is the
16 decision that was made in early December of last
17 year, in which all of the brakes came off, and
18 any price controls at all were removed. And we
19 saw a spectacular increase in wholesale prices.
20 The problem there wasn't just that the prices
21 increased. It's that, believe it or not, we
22 regulators in California were actually thinking
23 about how we were going to deal with the
24 situation that we had in which the two largest
25 utilities in the state were each losing a

1 million dollars an hour. We figured on the
2 basis of that, that we had a certain amount of
3 time to try to figure out what to do and to
4 react to it. Once that decision was made --
5 and I recognize that neither of you were present
6 on the Commission at that time, but it was an
7 institutional decision, if it happened -- once
8 that decision was made, the rate of deterioration
9 of that situation tripled. The two utilities
10 started losing money at the time rate of \$3
11 million an hour. And at that point, we simply
12 did not have time to move fast enough to
13 respond appropriately.

14 On a minimal evidentiary record,
15 we raised rates once in January, PG&E went
16 bankrupt. We raised rates again in March by a
17 much larger number. The situation didn't
18 resolve. There were a number of things that
19 contributed to improving the situation, some of
20 which were these generally rather disadvantageous
21 long-term contracts that the state entered into.
22 Some of them had to do with the mild weather;
23 some had to do with the tremendous conservation
24 efforts by consumers in the west. But the most
25 important thing, and there is almost a precise

1 correspondence day to day, was your action in
2 June to put some sanity back into the market.
3 And we appreciate that. We owe you recognition
4 for what you did there. And it's that kind of
5 attention to the condition of the markets,
6 whatever our philosophical views about where
7 we're going with these markets may be, we need
8 that protection. And you're the ones who can
9 provide it.

10 And a resolution of the problems
11 that we all face will be very much dependent on
12 your continued willingness to work with us to
13 assure that we can -- that we have a liveable
14 market environment in which to operate.

15 UNIDENTIFIED SPEAKER: I'm with
16 the New Mexico Public Utilities Commission. Our
17 Commission is elected, and so we independently
18 affirm with the Secretary, on the two points
19 that she mentioned, one being [INAUDIBLE], and
20 reliability [INAUDIBLE].

21 On RTOs, our Commission is still
22 looking for benefits to our region. They are
23 docking the case and [INAUDIBLE] Next week.
24 After that, probably they will come to some kind
25 of conclusion. But at this time, they are not

1 with the rest of the folks. That's all I have
2 to say.

3 MR. BURKE: My name is Jeff
4 Burke. I'm Energy Policy Coordinator for the
5 State of Utah. And I know that Governor Levitt
6 couldn't be here, but he did appreciate the
7 opportunity that you've given the western states
8 to come before you in the State of Washington.
9 I just have three brief comments to make.

10 I think the question before the
11 group that we've been asked to respond to as
12 part of the next steps, I think we have a
13 framework already provided for our next step, and
14 that's through the work of the Western Governors
15 Association, their transmission, conceptual
16 transmission plan, the energy policy roadmap that
17 the Governors adopted in Coeur d'Alene, Idaho,
18 the MOU that we've signed with Council of
19 Environmental Quality and other federal agencies,
20 and the interstate siting protocol that we're
21 currently developing.

22 I would submit the next step is
23 for FERC to join the states in finishing each
24 of those assignments that the Western Governors
25 have given to many other regional electric power

1 in cooperation with the Western Interstate Energy
2 Board. And in doing so, I think one of the
3 really important areas that has been alluded to
4 already today by Governor Hull and by Jim Souby
5 is the absolute need for access to information.
6 We can't have competitive markets unless
7 participants have access to information. And we
8 absolutely can't do an adequate job of planning
9 in this very complicated market, very complex
10 engineering that we're about to undertake, unless
11 we have access to information. And we can't
12 allow that information to be shielded by the
13 U.S. Department of Energy and companies under the
14 guise of security. We need to have this
15 information available so that we can move
16 forward.

17 And I would also like to just
18 emphasize and reiterate that I believe we're
19 entering a new era of resource planning. I
20 think we heard from a number of participants up
21 here today, and I know it's what we're hearing
22 in Utah and what Governor Levitt has committed
23 to, and that is a more comprehensive, more
24 inclusive planning process that just doesn't
25 include economic utility regulators, but includes

1 environmental regulators, includes environmental
2 community, advocates of energy efficiency and
3 demand side management, renewable energy, and, of
4 course, consumers.

5 I think there's a really
6 important message that I heard in the last panel
7 that we need to trust consumers to be able to
8 absorb the information we're giving them, then
9 they'll understand a lot of the decisions that
10 ultimately get made that are going to impact
11 their rates, impact their environment, and their
12 economy.

13 MS. BROWNELL: I'm going to let
14 our Chairman summarize, because he's so good at
15 it. And he is, after all, the Chairman. But
16 I want to make just a couple comments, once
17 again to thank all of you in the this room and
18 the Western Governors for their leadership.
19 Because when I did come to Coeur d'Alene last
20 summer, it was a real eye opener, and I came
21 back and said, I think these guys can be the
22 poster child for how to do it. And so indeed
23 we do rely on you.

24 And in response to Marsha, in
25 terms of recognizing your skill sets, we were

1 you, we consider ourselves that we still are
2 you, so we certainly will look forward to
3 working with the states. I spoke earlier about
4 the regional panels; certainly, that's one way
5 but not the only way to work. We will come
6 out west. We'll come out west as many times as
7 we need to. But we also recognize that
8 everybody's budgets are constrained. There are
9 other pressures. And so we're looking for ways
10 at the FERC to explore satellite feeds and other
11 ways of doing that. And you'll be hearing from
12 our new Director of External Affairs about what
13 kind of progress we're making.

14 So I think we also need to
15 look at more innovative ways of communicating,
16 other than just getting on a plane. Because I
17 think that behooves all of us.

18 Information. We agree
19 information, information information. But let's
20 be a little more focused perhaps than we have
21 been in the past when we want lots of
22 information without knowing how we're going to
23 use it. When I was in banking, we were
24 regulated -- don't ever let anybody ever tell
25 you that banking was deregulated. And we

1 provided mountains of information to various
2 entities who freely admitted they weren't using
3 it, but in fact they felt good to have it. So
4 let's get it, but let's work with COU, let's
5 work with the agencies. And frankly, let's work
6 with the industry, because we're adding cause to
7 them when we go on these shopping expeditions
8 for information. But there's no reason of
9 course that we can't be sharing that information
10 and developing in our market a monitoring unit
11 and the business plan that is being worked on,
12 that's certainly part of it, how we can work
13 with the states and other entities to do that.

14 We're all in the midst the of
15 transforming ourselves. A lot of effort has
16 gone into looking at the hydro re-licensing
17 efforts, the whole certification effort. We're
18 trying to be more efficient. We've had some
19 great direct meetings with the secretary at DOE
20 to make sure some of the bureaucratic barriers
21 that we heard about today are eliminated and
22 eliminated as quickly as possible.

23 One of the things that we're
24 trying to do as we transform ourselves is things
25 like RTO week. But our goal is to move towards

1 areas of consensus, to refine the debate, to get
2 on paper what we know and what we know
3 certainly, and we don't need to keep delving
4 into, and then devote our energies on what we
5 don't know and what we need to perfect. And
6 would I would like to kind of leave as a call
7 to action is, let's see in the summary that we
8 get here today, in the summary that we develop
9 during RTO week, where we can say these issues
10 are dealt with; we've dealt with them and we're
11 going to put them aside while we delve into the
12 more complex issues, like transmission pricing
13 and investment signals that we need to send.

14 We don't want to be here a
15 year from now discussing the same issues. I'd
16 like a whole new set of issues, no matter how
17 complex they are. Because in the end, with
18 every day that we delay and every day that we
19 can't make informed decisions -- not rushes to
20 judgment, defined use of the world towards what
21 do we need to do to get to that great of good.
22 So I'm delighted to have had the opportunity to
23 participate. We learned a lot. We go home and
24 say, Wow, can we absorb it all?

25 But we thank you for

1 participating and look forward to doing it again.

2 MR. WOOD: I guess to sum up,
3 I'm going to take an initial stab at what I
4 hope is the ultimate work product out of this
5 to-do list. I'm going to just try to, based on
6 what I heard [INAUDIBLE] From yesterday, and I'm
7 because I think it's kind of an inevitably
8 linked process. I'm actually pleased it is
9 integrated with what we did. And again, I thank
10 Marsha for encouraging us to do this.

11 But I heard seven big things.

12 There needs to be a western
13 energy strategy. I do -- sorry, my old baggage
14 from Texas Integrated Resource Planning, it has
15 some real chills on top of it. But it was
16 very interesting for me to hear people from
17 across the political spectrum view energy
18 strategy across the region in a very different
19 prism than those of us who live through the
20 left-versus-right debates of the early '90s. And
21 it seems to me that from both talking to
22 Governor Hull and hearing from Governor Locke,
23 and knowing what you all have now just said,
24 including our last speaker from Utah, there's a
25 very interesting -- and as a Texan, I come from

1 a schizophrenic state, too, where you've got the
2 environmental ethic from those who enjoy the wide
3 open lands to the libertarian, leave-me-alone
4 ethic, I want to develop everything I can see,
5 and you've kind of got that kind of nice mix of
6 people out here too, you can't pick one over
7 the other; you've got to harmonize it. And you
8 folks live that everyday, and I admire you for
9 managing to harmonize what could in other parts
10 of the country or world be a real divisive
11 need.

12 But I do think clearly that's
13 where the WGA leads. And we can support
14 however you and the states desires to support in
15 that effort, and can incorporate that through
16 whatever decisions we make involving the utility
17 business out here. But to the extent we can
18 invite and martial resources from other federal
19 agencies, such at DOE or the Interior or the
20 other land management agencies, we are here to
21 help.

22 The second issue, and this is
23 more of a task one. I heard Marsha has offered
24 to be a tool implementor. The demand side
25 participation in the markets, Marilyn really,

1 from your comments earlier, really helped in my
2 mind crystallize something that I think we can
3 move from the talk to the action phase on,
4 which if you all haven't gotten it is kind of
5 my MO.

6 But the demand side
7 participation is as valuable a resource in the
8 wholesale market as a new power plant or two or
9 three or four, or a transmission line [INAUDIBLE].
10 And to the extent we can corral that together
11 -- I heard Marilyn and Bob Anderson and Marsha,
12 kind of offer to do some sort of leadership on
13 that. And if I could suggest maybe at the
14 November meeting, the commissioners there talk
15 about how we can together do something to really
16 incorporate that into different levels of
17 marketing, so that the folks in the Northeast --
18 actually, [INAUDIBLE]. But out here it's
19 certainly something that you all have both lived
20 with and need, and maybe bring that back in
21 February. We've got a demand side conference
22 planned on Valentines Day in DC that we'll patch
23 in through the videos here, and make available
24 to as many people as possible.

25 But I think that's clearly a

1 way where our regulation of the wholesale markets
2 and your regulation of the retail markets -- and
3 one of our speakers on the last panel mentioned
4 the load-serving entities or the nexus right in
5 the middle of that see-saw. Well, we can make
6 it all work. And I think it's a great resource
7 that we are ignoring at our own peril. And I
8 think it's a real, what I call, early victory
9 for a more cooperative state and federal effort.
10 And I appreciate any feedback on how we can
11 help, or timing or resources we can bring to
12 bear there.

13 Infrastructure, which was a
14 focus of the conferences, is a focus my third
15 point, and my fourth. The third point is the
16 low-hanging fruit, the infrastructure now. It
17 seems to me, and I'll keep holding it until you
18 all call me Carol Merrill and push me out of
19 Door No. 3 -- for those of you who are old
20 enough to remember "Let's Make a Deal" -- this
21 is the conceptual plan. And I would love to
22 see it change from conceptual to business to
23 action plan. That would be my hope and
24 expectation there. It seems to me KREPSI, WECC,
25 rather than creating new organizations, as I

1 think a number have recommended, there are ones
2 there who already can do this. Will there are
3 projects that could be identified, I take the it
4 that those have not been actually approved and
5 voted on an engineering basis. But there are
6 smart, objective people out there that can say
7 from this point to this point, [INAUDIBLE],
8 we've got to do something about it.

9 Generation. Where they need to
10 re-orient load or where they need to beef up a
11 transmission line. It's that simple, but it's a
12 pretty complicated task. And I do think that
13 that is the first and earliest thing that can
14 be done here. Because again, the low-hanging
15 fruit would pass the test regardless of what
16 environmental screen you put over it based on
17 the western energy plan.

18 Step 4 is the not-so-long
19 hanging fruit. The more questionable project
20 that needs some more analysis are farther into
21 the future to where it's not real clear what
22 level of investment is needed or not. I think
23 that, clearly, who does that is probably -- I
24 think I heard, you know, there is certainly a
25 migration [INAUDIBLE] The later time frame where

1 they're actually set up and going. But yet we
2 all do need better info. Our first stab at it
3 today I thought was out there and gets us
4 going. But to the extent we can really depend
5 on better, crisper information, that looks like
6 what are the loads and demands and supplies
7 going to be for the next ten years out here.

8 That's how you make the
9 decision, is really selling info. So I hope we
10 can build on at least the concept that was in
11 our book, adding to the provinces and some
12 Mexican states to it as well, and get something
13 that really works for the whole region.

14 We didn't talk a whole lot
15 about gas. But I do worry. As we
16 certificated, I think Mark, what was it, 2.6
17 BCF, is that what it was?

18 Mark and I were flying over
19 here yesterday looking at what's pending before
20 the Commission now is another 2.6 billion cubic
21 feet per day of gas capacity coming into both
22 the southern west and the northern west and into
23 Colorado as well. That's a lot of gas. I
24 think I heard from people that know, having
25 rolled in that number into the mix, that that

1 may not be enough. There's a lot of gas out
2 here in the west, so it's fortunate that you're
3 sitting on top of it. That helps a whole lot.
4 But we still have to get it to where it's
5 needed. And I think that's one of the areas
6 where FERC can -- and that's Point No. 5 -- can
7 [INAUDIBLE] Certainty for new investment. We do
8 the gas stuff. We do the interstate
9 transmission rates on electric. You all do the
10 bulk of the transmission rate by retail
11 transmission rates on electric.

12 In all of these things we've
13 got to make sure -- I've heard from the last
14 panel, the two utilities out here -- most
15 clearly saying they need to make sure, as I
16 have said before, when I took the job, you've
17 got to get the money back. We collectively at
18 the regulatory level need to make sure that
19 those investors do get the certainty that they
20 will get their investment back on what is the
21 basic highway of commerce for our industries that
22 we regulate. And I know we all try to do that
23 in the most efficient way we can. But I can
24 tell you, we ought to do a lot better.

25 When I heard Marilyn's

1 turnaround times [INAUDIBLE] That's a pretty
2 formidable bar. We should all ascribe to meet
3 that for the number of days we process something
4 in as a two-digit number. I think we can learn
5 a lot from that. But that certainty, quite
6 frankly, we could talk about this plan for the
7 next ten years. But if we don't collectively
8 work to make sure that those who actually pony
9 up the dollars can get them back, whether that's
10 a public entity that BPA needs, whatever relief
11 they need from Congress, or the investors need
12 over the next 20 years of payoff, that they're
13 going to get their money back, I think that's
14 not a big favor to ask in a country that's
15 based on capital structure.

16 We can all work on incentive
17 [INAUDIBLE] Issues. We hope that the Commission,
18 in our effort -- I think Marsha, you referred
19 to it, to do some interconnection generation and
20 how the cost of that get borne, are all very
21 important to us. We want to do what we can at
22 our side to streamline and really standardize the
23 processes that make sense to do that, so people
24 don't waste a lot of time and money.

25 The sixth issue is kind of why

1 we're out here, constructive federal state
2 relationship. One of the first things I heard
3 about was, it's not just us federal, but there's
4 some other federal cousins that we can help
5 corral, too. And I do want to say, that
6 really, from -- this is my 62nd day as
7 Chairman. On about the second of those days, I
8 got a phone call from the Council on
9 Environmental Policy, which is a White House
10 office that is really endeavoring as part of the
11 Administration's effort to streamline energy
12 projects, work with both the permitting agencies,
13 like FERC, and all the land management agencies,
14 like all the ones we've talked to today and
15 mentioned, to streamline the process. And we
16 were in every one of those meetings. And I
17 can't say we're all the way there yet. But to
18 elevate to the White House level the kind of
19 issues that we all kind of have to grapple with
20 in the, you know, in getting a pipeline
21 permitted or getting a dam relicensed or getting
22 the transmission line through federal lands,
23 those are the kind of things that are in play
24 today. They're not going to be on the agenda,
25 they're on the agenda and are being looked at.

1 And people at the highest level are being made
2 aware of exactly what issues we're all facing.

3 So the more you've got on that,
4 the more I've got to bring to that meeting.

5 And I appreciate you all re-emphasizing that
6 today.

7 This is from my experience as a
8 Texas regulator over the wholesale market. So I
9 got to be a [INAUDIBLE] On the same job, which
10 actually made it a lot easier, I'll tell you.

11 But our job is not to know the
12 answers, it's to find people who do, and to get
13 them at the table, and to make damn sure they
14 stay focused on what's good for the broad public
15 interest. And if they let their own economic
16 interests kind of creep in there, we make sure
17 that it's not illegal, and make sure that those
18 get funneled and pushed back for the public
19 interest. Our jobs as convenors, and I saw it
20 yesterday, you basically keep pushing the
21 industry, keep pushing each other, y'all push us,
22 we push y'all, to get the closure on this stuff
23 so we can move on. Because I think the long
24 time we've been treading water makes everybody
25 tired. As it results in a tired infrastructure.

1 So to the extent that we can
2 convene or y'all can convene and we'll convey
3 that y'all come out, or whatever, but that we
4 all convene and get all them here, because they
5 bring the dollars and they bring the investment,
6 they bring the entrepreneurial technologies to
7 the table. That's what we all do well, is to
8 know who needs to be at the table talking.
9 Then, when they can't decide, we threaten to
10 make that decision that they'll all hate, which
11 has always seemed to work so far, I don't know
12 why.

13 This is our first visit. It's
14 actually our first anything, as a Commission. I
15 took over the Chair 62 days ago, and we voted
16 two weeks after the horrible events of the 11th
17 that, you know, airplanes as missiles
18 notwithstanding, we're coming out here, and this
19 is where we're starting. Because this is where
20 we feel welcome. We got a nice invitation from
21 our friend, Marsha, to come. But this was an
22 area that needed our attention. And I'm not
23 going to make up for what the agency did or
24 didn't do in the past, because I wasn't here.
25 But we're here for the long haul with you guys.

1 We plan to be, we plan to be back. And I do
2 note that the weather is a little nicer outside
3 right now than it was this morning, so I'll
4 draw my seventh point to a close.

5 But the seventh point is we're
6 coming back. We need to do this in other
7 regions, because we don't want what happened out
8 here to happen in the Northeast or the Southeast
9 or the midwest, either. Because we do feel
10 responsible. We're partners with you, we're
11 partners with the industry in keeping the lights
12 on for our fellow citizens and keeping cost of
13 power effective and reasonable. But we will be
14 back.

15 And I would like to make this
16 a pickup the agenda where we left off, and
17 continue to have the dialogue with you all, at
18 the states, and with the industry out here about
19 what we do. I will go back with our folks
20 here. This was our first attempt to try a
21 regional conference. And kind of basically the
22 next step is to put out a list of everybody
23 that cares to be interested, we'll use our web
24 technology to see how good we can be at that.

25 But that's kind of it. I

1 would welcome comments and feedback from anybody
2 in the industry who are watching, the home
3 audience who wants to put in their two cents,
4 we'd like to read that stuff. We'd like to
5 read it more on e-mail and fax than we used to,
6 but that's life in DC. And we'll work on that.

7 But we're going make it
8 actionable and not just talkable. Thank you all
9 for you time. I want to thank our staff for
10 putting it together. I want to thank the folks
11 here in Seattle who provided the nice facilities.
12 And I appreciate the partnership and
13 collaboration with all of you and with the
14 industry, and we'll see you soon. Thank you.

15 (The proceedings concluded at
16 4:30 p.m.)

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